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# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

Printed for the use of the Committee on Appropriations

### Part 1—(Pages 1–1723)

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**Department of Commerce**
**Department of State**
**Department of the Treasury**
**Executive Office of the President**
**Export-Import Bank of the United States**
**General Accounting Office**
**Inter-American Foundation**
**Nondepartmental Witnesses**
**Peace Corps**
**United Nations**

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# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, FEBRUARY 25, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2:15 p.m., in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and Leahy.

## HUMAN RIGHTS VIOLATIONS IN NICARAGUA

## NONDEPARTMENTAL WITNESSES

### OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This afternoon we will receive testimony on the situation in Nicaragua, especially as it relates to the current policy of the Sandinista junta toward the Miskito Indians.

I called this hearing because we are fortunate to have with us the elected representative of the three Indian tribes of Nicaragua.

Mr. Stedman Fagoth Muller is in this country for talks with the U.S. Government, the Organization of American States, various human rights groups, and the United Nations, in an effort to bring attention to the policy of the Sandinista government toward his people. He will be our first witness.

Following Mr. Fagoth's testimony, we will have senior representatives of the Department of State and the Agency for International Development who will present their agencies' views of the current situation in Nicaragua.

As a Senator from Wisconsin, I have a special interest in the people of Nicaragua. Nicaragua has been my State's partner in the Partners of the Americas Program for the past 17 years.

Since 1965, the Wisconsin-Nicaraguan partners have developed a worthwhile working relationship on a people-to-people basis. The goal of the Partners Program is to mobilize resources at the community level for technical and cultural projects, based on the principles of self-help and mutual benefit to both sides of the partnership.

Wisconsin volunteers have assisted in many projects in Nicaragua. This assistance has included a book in the Miskito language on raising poultry; studies on alternate foodstuffs; potable water systems; nutritional training and nutrition centers; agriculture enhancement; the development of income-generating projects; cultural exchanges; community education; and primary health care and midwife training.

As chairman of this subcommittee, it is my responsibility to examine closely the U.S. Government's economic assistance programs—the benefits of those programs and our policies behind them. Since 1979 Nicaragua has received approximately $125 million in economic assistance from the United States. Many of those projects funded by this aid have been abandoned since the Sandinistas closed off the Atlantic coast of their country.

It is a widely held view that the United States backed the Somoza regime and has, through lack of aid since the revolution, thrown the Sandinista junta into the arms of the Cubans.

It is interesting to note that over an 18-year period, the U.S. Government provided the Somoza regime with $252 million in economic assistance; while on the other hand, the United States has provided the Sandinista government over a 2½-year period with $125 million in economic aid. If you average that out, it is $14 million per year during the Somoza regime and $50 million per year during the Sandinistas. If that can be construed as throwing them into the arms of the Cubans, I feel certain that any number of countries would like that same kind of treatment.

I believe that aid shows that this country was hopeful that the revolution in Nicaragua would improve the lot of its people.

The Sandinistas promised a mixed economy—yet are expropriating individuals' property.

The Sandinistas promised respect for human rights—yet churches have been burned; entire villages wiped out; innocent people imprisoned, tortured, and murdered.

Jose Estaban Gonzalez, the national coordinator for the Permanent Commission on Human Rights in Nicaragua is quoted as saying last February that "the Sandinista regime uses methods of torture and repression very similar to those applied in the past by the Somoza dictatorship." Subsequent to that statement, the Sandinistas suspended the activities of this "permanent" human rights group and ordered the files of the organization handed over to the Ministry of Justice.

The Minister of Defense, Humberto Ortega, stated 4 months ago that those who opposed the government "will be hanging from the lampposts along the roads and the highways" of Nicaragua.

This, in my opinion, shows little or no respect for human rights.

The plight of the three Indian tribes of the Atlantic coast is a case in point. How many have been forced from their homes? How many have been murdered, tortured? Is this not a systematic execution of a race?

Yesterday, the President of the United States spoke on his Caribbean Basin Initiative before the Organization of American States. In that speech he said, "The Nicaraguan government even admits the forced relocation of about 8,500 Miskito Indians, and we have clear evidence that since late 1981 many Indian communites have been burned to the ground and men, women and children killed."

Since January of this year, travel to the Atlantic coast of Nicaragua has been forbidden. Our Embassy has been unable to obtain permission to go into this area to confirm the claims of atrocities made by the Indians who have fled by the thousands into Honduras. The Sandinistas have taken over the independent radio station built with AID grants. It was built, incidentally, by the Wisconsin-Nicaraguan partnership on the east coast, and now that station is being used for military broadcasts.

Nicaragua has become an armed camp. Since 1979, their armed forces have tripled in size and become the largest army in Central America. Nicaraguan airfields are being hardened and enlarged—large enough and sturdy enough to support MIG fighters. They are expanding their arsenal to include tanks—Soviet tanks—light aircraft, helicopters, heavy artillery, and now SAM-7 missiles.

I think we have to ask ourselves if we are prepared to support—through our foreign aid programs—this repressive regime, a regime that in the third verse of its national anthem describes the United States as "The Yankees, the enemies of mankind."

Senator Leahy has a brief opening statement, and after Senator Leahy's statement we will proceed with our first witness. Senator Leahy?

### STATEMENT OF SENATOR LEAHY

Senator LEAHY. Thank you, Mr. Chairman. My statement will be brief.

I am sorry and somewhat concerned about the extraordinarily short notice of the hearing on such an important matter. The President of the United States is now requesting several hundred millions of dollars for his Caribbean Basin policy. He will be asking for considerably more—considerably more than the amount of money mentioned in his OAS speech yesterday.

This committee will have a great deal to say on how that money is going to be spent—and will.

I have requested some weeks ago that we have major oversight hearings on El Salvador and the whole of Central America, including Nicaragua. I would hope that when we do have those hearings, that we might do it with a little bit more notice than this hearing has had.

I have done my best, on short notice, to rearrange my own schedule but I am going to have to leave here within the hour because only so much could be rearranged.

I did take advantage of the fact that as one of the members of the Appropriations Committee who is designated to serve also on the Intelligence Committee on behalf not only of the Senate but especially the Appropriations Committee, we had briefings regarding this part of the world earlier today.

I did raise some of the questions that are raised by the nature of this hearing, asked our intelligence community their best knowledge of it. They were good enough to give that to me in a classified manner. I would assume that everything we will hear today will jive completely; but I will also be interested, naturally, if it does not.

I would hope, too, that we go into this on these questions of human rights violations, I think they are extremely important. I think it is important for us to consider this before we vote more money for Central America, before the President's actual request comes up here.

We should go into the whole question of human rights violations involving any country that might be seeking any money from the United States.

I would hope that we would also go to some well-respected independent groups outside the Government, such as Amnesty International or groups like that, ask them also for their analyses of human rights violations by any country that we might send money to—whether it is Nicaragua, El Salvador, Guatemala, or any other country, as part of that procedure.

I am particularly interested in the Miskito Indians. I raised this issue about 1½ weeks ago at some length with the Archbishop of Nicaragua and with both opposition party leaders, those opposed to the present junta and with members of the junta. As might be expected, I received conflicting answers from those in or those outside the government.

Again, it will be helpful to hear the answers today because I will have to leave. Because of the short notice of this hearing I will have some questions, I suspect, for the record subsequently.

Senator KASTEN. Thank you. I would just like to say that Senator Leahy and I have exchanged correspondence on the importance and the necessity of having oversight hearings on El Salvador and the entire Caribbean Basin Initiative. This subcommittee will have those hearings.

This particular hearing came up almost as an emergency, as a result of my becoming aware of Mr. Fagoth's trip to the United States.

Also, we tried to call Amnesty International Thursday and Friday of last week. Unfortunately, they seemed unwilling or unable to return our telephone calls over 2 days. I am hopeful that we would be able to involve people such as Amnesty International and others, either as witnesses or certainly for different types of information.

We would like to proceed, then, to our first witness. Mr. Fagoth, I would like to welcome you here this afternoon. You may proceed with your statement.

## MISKITO INDIAN TRIBE

## STATEMENT OF STEDMAN FAGOTH MULLER, LEADER, MISURASATA; MEMBER, MISKITO INDIAN TRIBE, NICARAGUA

## ACCOMPANIED BY COL. SAMUEL T. DICKENS, USAF (RET.), CONSULTANT, INTER-AMERICAN AFFAIRS, AMERICAN SECURITY COUNCIL

### PERSONAL HISTORY

Mr. FAGOTH. Senators of the United States, allow me to read what in a few pages tells the most dramatic story of my people in their history.

My name is Stedman Fagoth Muller. I am a leader of Misurasata, an oganization of Miskito, Sumo, and Rama Indians from the Atlantic coast of Nicaragua.

I was born in Bilwaskarma on the Rio Coco in Nicaragua on August 5, 1953. I am married to Dina Rivera; we have no children. My mother's name is Edna Muller. Today she is a refuge in Honduras. My father, Phil Fagoth, is dead.

About 15 days ago, the Sandinistas profaned my father's grave when they blew it up with dynamite. I went to San Esquipulas where he is buried a week ago to repair the damage. His gravesite is just a few meters from my home as the Sandinistas would not allow a proper Christian burial. We had to bury him within 4 hours of his death this past July when the Sandinistas took over the house by force.

## HISTORY OF MISKITO INDIANS

The Miskito Indians are an indigenous, democratic, communitarian tribe who have lived in peace for centuries. Today, my people are being massacred, forced into concentration camps and in fact subjected to a policy of genocide by the Sandinista government. I would like to give you a brief description of the relations between the Sandinistas and the Miskito Indians.

Before I begin, it is important to understand a little about my people. We are organized into 256 communities, each of which has a council of elders of 11 men and women, chosen by the community. I was a member of the council of elders from the community of San Equipula in 1973. The council of elders sent a representative to the Magna Assembly where important decisions are made for all the Indian people.

## SANDINISTA ACTIVITIES AGAINST MISKITO INDIANS

In April 1979, we were in contact with the Sandinista front because we wanted to know what their policy for minorities would be. A group of 115 Miskito Indians, led by a member of the council of elders, joined the Front, but when the Sandinistas began to indoctrinate the Miskito with Marxist-Leninist theories, they returned to the Atlantic coast.

The Sandinistas gained the power to govern Nicaragua on July 19, 1979. That first week they attempted to replace each of our 256 council of elders with Sandinista defense committees.

By the first week of August 1979, various Miskito leaders were arrested. The second week of August 1979, the Miskito Indians demonstrated against the government because there were shortages of food supplies which were controlled by the Sandinistas.

The first week of September 1979, lumbering, a major economic activity of my people, was prohibited by the Sandinistas.

The third week of September 1979, Lyster Athers, a leader of the Miskito, was arrested and taken to Puerto Cabezas. He was murdered the third week of October.

The first week of October 1979, the Sandinistas' literacy campaign came to the Atlantic coast, interfering with our traditional educational system. The presence of Cuban teachers with their Marxist-Leninist dogmas caused a great outcry among our people.

We met with the Sandinistas on December 19, 1979, to see if these problems would be worked out. The Sandinistas agreed to remove the Sandinista defense committees from the Atlantic coast, to return the remains of Lyster Athers and punish his murderers. This never was done.

During the first and second week of January 1980, the Sandinistas expropriated Indian land. The Yula Indian Clan property southwest of Puerto Cabezas, the Tuapi Indian Clan property north of Puerto Cabezas, the Tasbapauni Indian Clan property were all expropriated.

Another agreement was signed by the Miskito Indians and Daniel Ortega, Moise Hassan, William Raminez, Carlos Curran. The Foreign Minister of the Sandinista government signed that agreement on August 5, 1980, which included a statement that 80 percent of the values of the resources would be returned to the Indians, 20 percent for the government. That literacy programs would be taught in our language—Miskito, Sumo, and Criolla; a map drawing up community boundaries be made; and punishment of the murderers of Lyster Athers, among other things. These were never initiated, still we are waiting.

A month later, Bosawas, a 9,000-square-kilometer forest belonging in common to the Sumo and Miskito Indians was declared a state forest preserve.

Later in September, demonstrations lasting 3 days occurred in Bluefields protesting the Cuban presence. The Sandinistas prohibited press reports from the area.

In November to December 1980 and January 1981 severe repression—arrests and murders—occurred because the Miskito Indians rejected the Sandinistas' plan for the Atlantic coast. This plan would have made our community property into state property and would have given the Sandinistas the power to choose our leaders. Many leaders, including myself, were arrested. The Miskito exodus to Honduras began in March 1980, when 15,000 to 25,000 Indians demonstrated against the Sandinistas in Waspam, Puerto Cabezas, and Minerales.

While I was in Seguridad Estado Jail No. 3 in Managua on March 18, 1981 at 7 o'clock in the evening Tomas Borge, Juan Jose Ubeda, and Raul Gordon came to my cell and warned me that Sandinismo would be established on the Atlantic coast, even if every single Miskito Indian had to be eliminated.

Until May 1981, I was under house arrest after having been tortured for 59 days by the Sandinistas. I was taken out of jail and put under house arrest because I agreed to go to the Atlantic coast to calm things down. I had also agreed to go to Russia to study the social sciences. I preferred to escape to Honduras instead.

On May 20, 1981, 80 percent of the inhabitants of Sandy Bay fled to Honduras to escape Sandinista repression.

On July 21, 1981, members of the Moravian Church were persecuted and imprisoned because they had been helping the Miskito refugees in Honduras.

Rev. Tillet Mullins, the head of the council of elders, was arrested on August 22, 1981. When he was released on bail, he and half of the council of elders fled to Honduras.

On October 24, 1981, a 14-year-old boy, Felix Peralta, was killed in Saupuka because he shouted, "Long live the Misurasatas" in front of a Sandinista people's army patrol. Over 50 Indians were taken prisoner.

On December 23,1981, there was a massacre in Leimus—35 people were buried alive, some were dug out by their relatives. One survivor, a 19 year old named Vidal Poveda from Waspu lives today in a refugee camp in Honduras.

On December 27, 1981, another massacre occurred in Pilpilia and some Miskitos escaped to Honduras. The inhabitants of Carrizal, Santa Isabel, more than 22 communities of Indians were moved from their homes to Leimus. Also, 300 people from Puerto Cabezas were captured.

On December 30, 1981, 14 people from San Carlos were imprisoned.

From January to February of this year, 49 churches have been burned to the ground in our towns and communities. The council of elders from 42 Miskito communities have determined that at least 393 Miskitos have been murdered and close to 3,500 Miskitos are missing. The council of elders from these communities have many names, but because many of their relatives are in concentration camps those names are not yet public. These concentration camps are located in Risco de Oro, 17 kilometers near Rosita.

Towns along the Rio Coco, which is the border between Honduras and Nicaragua, have been attacked and burned. Some towns are now deserted. Some towns have been subjected to strafing attacks by Sandinista aircraft. At least 10,000 Miskito have fled to refugee camps in Honduras.

I have presented this information to the Inter-American Human Rights Commission.

The Episcopal community of Nicaragua has expressed its concern about these violations of personal rights in a pastoral letter last week. It was printed in La Prensa, in Managua on Friday morning, February 19, 1981.

I call on all those who care about these things to demand that the Sandinistas stop these atrocities.

Miskito Indians are being murdered, burned, buried alive, forced into concentration camps, forced to march to these camps without proper consideration for women, children, the elderly, the weak and sick; our villages, homes, and animals are being destroyed by the Sandinistas.

What I have described is our struggle to preserve our identity, our customs, our traditions, and our lives in the face of ideological-political penetration by the Marxist Sandinism.

## REASONS FOR ATTACKS ON MISKITO INDIAN CULTURE

I feel the Sandinistas are destroying the Miskito Indians and their culture for three reasons:

One, they are determined to carry out a program of indoctrination to convert all the Nicaraguan people to Marxism-Sandinism. The Miskito Indian 256 communities are a specific minority who have cultural traditions and a democratic system of governing which is foreign to the Sandinistas. This unity presents a threat to them. When they found out they could not make us submit to their Marxist-Communist beliefs, they became determined to eliminate the Indian unity.

Two, the Miskito Indians effectively control an important economic sector of the country, extensive forest lands and important mines. The Sandinistas want this economic sector to be controlled by the government rather than any single group.

Three, this same sector of the country, the entire eastern part of the Caribbean Atlantic coast, has important strategic value. The important airfield and military facilities at Puerto Cabeas, as well as the Port of Bluefields, are vital to the buildup of military strength to the Sandinistas. They do not want the Miskitos to exercise continued control over this region and they want to develop their buildup in secrecy.

Colonel DICKENS. He is in your hands to respond to any questions that you might have.

Senator KASTEN. Thank you. I wonder if you, sir, could introduce yourself. You are Colonel Dickens, and you are going to act as his interpreter; is that correct?

Colonel DICKENS. Yes; that is right. I am with the American Security Council as a consultant. I am Col. Sam Dickens, USAF, retired.

Senator KASTEN. Thank you, Colonel Dickens.

## POPULATION MAKEUP OF MISKITO INDIANS

Mr. Fagoth, you have 256 communities which you represent. How many people live in this Atlantic coast region of your country?

Colonel DICKENS. Approximately 190,000 people.

Mr. FAGOTH. It is 1,500 Ramas, 15,000 Sumos, and the big majority is Miskito, 174,000 to 175,000, more or less.

Senator KASTEN. What is the ethnic makeup of these people?

Colonel DICKENS. They are native Indians, legitimate native Indians.

Senator KASTEN. I think it is important to understand, first of all, the emergency nature of these hearings and the emergency nature of your visit here.

The atrocities began in late December, January, and in February. That is something that is happening right this moment.

Now, it is my understanding that the Sandinistas claim that they are moving the Indians out of their villages for their own safety, and the Sandinistas also claim that they are moving the Indians out of their villages because they are collaborating with the anti-Sandinista forces.

Now, can you tell us about the anti-Sandinista activity, if any, in that area before your people were forcibly removed? In other words, what was taking place? Was there any kind of anti-Sandinista activity taking place in that northeastern area before your people were forcibly removed?

Let me expand on that. Specifically, was there any fighting between government forces and anti-Sandinista forces; were the Indians in any way involved in any actual fighting?

Colonel DICKENS. That is one of the most false statements that the Sandinistas have been making while massacring the people. If they think that they are removing these people in order to protect the communities, why do they think that they have to fear our communities? Why would they have to burn them to the ground?

If they are trying to protect our people, why do they feel it necessary to burn someone alive?

The February 13 that just passed, in this particular town of Hassan community this lady who had just given birth to a child, she was in the pain of birth, and because she could not walk the 3½ days of forced march to the camp they set fire to the house. The baby died. It is buried right there at the steps of the church. Her husband, the lady's husband who buried her, is now in the refugee camp.

I ask the Sandinistas, is it necessary to do that in order to protect the Indians? Is it necessary to burn these towns, when in fact these towns are on the Atlantic coast and they are not on the frontier, to say that it is necessary to do that to protect the Indians? Let the Sandinistas answer that question. And then have them say that they are moving us in order to protect us.

## ANTI-SANDINISTA ACTIVITIES

Senator KASTEN. Was there any anti-Sandinista activity in this area before your people were forcibly removed?

Colonel DICKENS. The anti-Sandinista activities on the North Atlantic, they started to develop the first week that the Sandinistas took power. They started precisely when they wanted to destroy our organization. They wanted to take away the council of elders and substitute it with defense committees, and that is why I want to say that these anti-Sandinista activities are not recent because in the very beginning they were against our way of life.

Senator KASTEN. Thank you. I have some additional questions, but at this time I would like to ask Senator Leahy if he has some questions.

Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman.

## SELECTION OF FAGOTH TO HEAD MISURASATAS

I wonder, Mr. Fagoth, the Sandinista government has originally picked you to be the leader of the Misurasata?

Colonel DICKENS. I would like to clear up that point.

Senator LEAHY. As he clears up that point, for clarity, could he tell how he got into it, how long he was there, and how he left?

Colonel DICKENS. Is the question referring to him being jailed?

Senator LEAHY. No, no, I am talking about they having picked him. Obviously, he served for a period of time and then left. Did that come right at the time he was jailed, before, or how? Just give me the sequence.

Colonel DICKENS. I want to let you know that not in a single moment the Sandinistas selected me to run or manage, or be part of them, or to occupy any single representative position for his country. It was the minorities and the groups of his people that did that.

The relationship that we have always maintained with the Sandinistas, unfortunately, has always been on the defensive because they have always been attacking the principles of the way we live. That is the way that this should be developed, this whole thought.

It is in fact exactly for those reasons that he is here before you now.

I would like to say the following, ask all the questions that you believe necessary so that I can be able to answer and inform you, that you wish to ask, related to this situation.

Senator LEAHY. So I understand, then, the Sandinistas had nothing to do with picking him originally to head the Misurasata. Am I correct in that?

The Sandinistas had nothing to do with choosing him, he was elected totally independent of the Sandinistas?

Colonel DICKENS. That is correct, by his people. If it had been in the hands of the Sandinistas to do this, they would have selected him in order to put him into jail.

Senator LEAHY. I understand.

Colonel DICKENS. Or to die.

Senator LEAHY. I asked the question because on August 26, 1981, the Washington Post had an article about discontent growing on Nicaragua's east coast and said that Mr. Fagoth had been picked by the Sandinistas.

Colonel DICKENS. I can give you the day, the date, and the hour in which I was selected by the people.

Senator LEAHY. I am not arguing the point with Mr. Fagoth, I simply want him to know what was reported here.

Colonel DICKENS. Yes, he understands that you were not suggesting that.

### DETAILS OF FAGOTH VISIT TO UNITED STATES

Senator LEAHY. Your visit to the United States now, Mr. Fagoth, was that arranged by our State Department, or how did you come to be here in the United States now?

Colonel DICKENS. In relationship of the visit I want to say two things.

First, to answer your question and also to say a bit more which you have not asked because I think it is worth it to put it out in front, lay it out in front of you.

The American Security Council—he was saying the Council of Security—he was invited by that institution in order to denounce, precisely, to make statements so that he would be here to be able to inform about the situation.

But I say another thing in order to denounce the actions taken against the people, the Miskito people with clear evidence, with proof in our hands. We will leave copies of information with you of communities of people that have disappeared. A number of names are there. Some, their families are concerned about whether they will be searched after, that they are not persecuted.

I was missing a little bit of the point there, but some names are not put down because they are afraid that they would be persecuted if they revealed their names.

In the second place, to invite the honest newspapermen so that they will go to the places where these things occurred. You do not have to believe him this afternoon, but come to the places where these things have occurred and see it for yourself.

That is why we would give you names and exact places of genocide that has been committed by the Sandinistas because there is a serious problem in the United States because the newspapermen go to Central America. They go to say about how in El Salvador the people are being attacked by junta, a rightist junta, a reactionary rightist junta.

But these newspapermen do not have the dignity to give their presence, to appear in Nicaragua and to see how a Marxist government is committing massacre against their people. That is why I am extending the invitation to these newspapermen so that the Government of the United States before making historic decisions about Central America, they have exact information and data about the real situation.

The third point, distinguished Senators, I would like to make out a call to the United Nations, specifically to the Commission on Human Rights because apparently I have the feeling of their attitudes toward human rights, that it is not going in the proper way, it is in an erratic manner. That they are ready to announce human rights violations in El Salvador, Chile, Argentina, et cetera, et cetera., but why does not this Human Rights Commission see what is going on in Nicaragua?

Are we human, also? Is not this of such magnitude to be of interest and to be compared with other human rights? I am not accusing any institution.

As humans that we are, we think that we are entering into that competition as well.

Go to Nicaragua, to the Atlantic coast, dirty their boots. That they go to the communities, go to the indigenous population communities, see where there are grave sites of common burials so that they gain exact information and not go on with the typical——

What is really upsetting him is that people are going to Managua and taking their drinks there at a bar in a hotel, doing this in the best hotels and restaurants in the capital. They do not dirty their boots in the outside areas.

Senator LEAHY. Mr. Fagoth, I wonder, as I have a passing interest in these hearings as a member of the committee, I wonder if I might just slip a word in here.

Colonel DICKENS. Please, excuse him.

Senator LEAHY. No excuse is needed. I find this fascinating, but I do want to get one word in, a couple of words in.

One, like everybody who holds public office I on occasion may have my disputes with our press. But in strong defense of the U.S. press, I first heard the possibility of killings of Miskito Indians in the American press, and I suspect much of the rest of the world did.

Subsequent to hearing about it there, I then discussed it with our State Department and our appropriate intelligence agencies. One of the local dailies, the Washington Post, has run editorials condemning killings of Miskito Indians.

I have heard our chargé d'affaires ask repeatedly members of the junta in Nicaragua for permission to travel in that area. We have at least one member of the State Department who is here in the room who was present with me on at least one of those occasions when the chargé requested permission to travel in that area.

### OAS ACTION IN NICARAGUA

You made reference to the United Nations. I wonder if you could tell me how effective the OAS might be if they were to make a human rights investigation of the situation.

Let me tell you why I ask the question. As a U.S. Senator I would like very much to see the OAS go into Central America with their own human rights commission and investigate exactly what is the status of human rights violations, whether in Nicaragua, Guatemala, El Salvador, or any other country. How effective could they be in this particular situation?

Colonel DICKENS. I think, yes, they have to be effective. But I cannot let it pass by what our authorities have said, what the council of elders has said before he came here to the United States.

They asked the Organization of American States, why do we have to ask for money in order for us to be able to come to denounce, why do we have to go looking for money in order to be able to make the trip to denounce? That they should come and see us when it is their job to be on top of all these things that are taking place in Latin America and see what is going on.

As we are in this particular place on this planet, it could be possible that there is some other place where there are people who cannot come here. Thank God that I have the opportunity to be here. I found much interest, much receptivity. I advocate that there should be no violation of human rights.

So, he has run into this attitude of receptivity that there should be no violations of human rights.

Senator LEAHY. I would hope that our Government might urge the OAS to make such an investigation.

Let me just clear up one last point. Colonel, you are part of the organization that paid for Mr. Fagoth to come here on this trip; is that correct?

Colonel DICKENS. Yes, we have been paying for all his expenses while here in Washington.

Senator LEAHY. And you received no aid from any other group, any Government group?

Colonel DICKENS. Absolutely not. From John Fisher, president of the American Security Council, a nonprofit organization.

Senator LEAHY. Thank you. I was not asking if there are other groups, I meant specifically, there was no Government agency that in any way assisted?

Colonel DICKENS. No; there is not.

Senator LEAHY. Thank you, Colonel. Thank you, Mr. Chairman.

Senator KASTEN. Thank you, Senator Leahy.

### DETENTION CAMPS

Mr. Fagoth, those of your people that have been removed to the detention camps, can you tell me how many camps there are, and where they are located?

Colonel DICKENS. That is correct, I will inform you. Today we only know of one concentration camp, it is 17 kilometers northeast of Mina Rosita. It is in the central part, it is called Risco de Oro.

The Sandinistas call this "The Promised Land," but in relationship to that there is another situation. In the 42 communities which the people have been removed from, the council of elders has a census of 35,000. The High Commission representative of the United Nations for Refugees says, or states, that there are about 10,000 Miskito Indians in Honduras. The Sandinistas say there are 10,000 in Risco de Oro.

Let the United Nations respond or tell him, where are the missing 15,000? We think that there is another concentration camp.

When he started his trip on February 14 to the United States there was no information about any other concentration camps.

Senator KASTEN. Could you tell the subcommittee anything that you know about the conditions in that one concentration camp, are people being cared for, what is going on? There was some discussion about forced labor. What are the conditions in that camp?

Colonel DICKENS. He says that is correct but, please, note these things to be able to prove them in the future. He states that because the Sandinistas are very able to twist the words and use words. That is why he asks that you take down everything that I have said here.

In this concentration camp of Risco de Oro they eat twice a day, that is the maximum that they do, when they can. In less than 2 months, more than 60 youngsters have died.

Senator KASTEN. More than 16, or 60?

Mr. FAGOTH. More than 60.

Colonel DICKENS. More than 60 children.

Senator KASTEN. More than 60 children have died.

Colonel DICKENS. That is easy to check out by counting the burial places. If they were not living in an inhuman state, the 60 would not have died. That is a judgment or a gage of the situation.

In the second place, many of our young people are being entered into labor without any wage. The United Nations states that this is being done, this work is being done on the basis of them being fed. They are working for their food because there is such a program.

But I call it forced labor. Why do I call it forced labor? Because the Indians do not want to do that kind of work. They would prefer to be at the place at the river fishing, doing their things and not being in this mountainous area that is unknown to them.

Senator KASTEN. How is it that you know so much about this camp, have you been there, or have you talked with people who have been there?

Colonel DICKENS. It would seem that I would be risking my own security in responding to this question. Nevertheless, it is not violating a trust because the Sandinistas also know that it is true, he enters and leaves Nicaragua, certainly the communities that are on the border. That is why personally he knows.

But on the other hand, it is daily contact because people are leaving and entering. This is important in order to be able to respond to your question. Their own community, the indigenous community maintains control. This community does have its direction from the council of elders, it maintains control.

Senator KASTEN. There are a couple of other questions that I have, and possibly other questions that other Senators who are members of this committee have. We will submit these questions to you in writing and ask for your response for the purpose of the record.

At this time, on behalf of the committee, I would like to thank you very much for your courageous statement and for your participation in our hearing.

I would like to ask now that Everett Briggs, Deputy Assistant Secretary for Inter-American Affairs of the Department of State, and Otto Reich, Assistant Administrator for Latin American and the Caribbean for AID come up to the witness table.

We thank you very much.

Mr. FAGOTH. Thank you very much.

Senator KASTEN. I understand that you both have prepared statements. The prepared statements will be made part of the record. You may read the statement in total or simply summarize, whatever suits your purposes.

I would like for Mr. Briggs to go first and then Mr. Reich, and then you can respond to questions to either or both of you.

Mr. Everett E. Briggs.

# DEPARTMENT OF STATE

## STATEMENT OF EVERETT E. BRIGGS, DEPUTY ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS

### PASTORAL LETTER

Mr. BRIGGS. Thank you, Mr. Chairman. My statement is relatively brief.

Mr. Chairman, the recent pastoral letter which was read in all the Catholic Churches in Managua on February 18 underscores the worldwide concern over the plight of the Miskito Indians in Nicaragua.

I have made available to the committee the text of that declaration in translation, an informal translation, that you may wish to make a part of the record.

Senator KASTEN. Without objection, so ordered.

[The letter follows:]

### CHURCH DENOUNCES TREATMENT OF MISKITO INDIANS

(The following is an informal translation of the communique of the Nicaraguan Episcopal Conference issued on February 18, 1982, on recent developments in the Atlantic coast of Nicaragua.)

The events that have occurred in the zone of the Rio Coco, frontier with Honduras, in the Department of Zelaya, Nicaragua, since December 1981, and that have culminated, in part, with the massive transfer of the entire Miskito population toward the interior of national territory and, on the other hand, with the flight of a considerable number of the population of this zone into Honduran territory, have had a painful effect on all the inhabitants—Miskitos, Sumos, and Ladinos of the area.

It is well known that armed encounters occurred in these months and that in this zone these encounters resulted in the deaths of many militiamen and soldiers of the Sandinista Popular Army, as well as the deaths of some uninvolved civilians. As a result of these events there are dozens of detainees and almost all of the towns along the Rio Coco have been evacuated by the army. While it is possible to explain in military terms the evacuation of these towns, nevertheless, we regret, from a human and Christian point of view, the displacement of these Indian groups that have been located in this region since time immemorial. Such displacements include the removal of the population to settlements in the interior of the republic, as well as displacements into Honduran territory where many have fled, driven perhaps by fear or by the manner, at times drastic, with which earlier ones were transferred to the settlements in Nicaragua. As pastors for all our people we feel profoundly the sorrow provoked by the uprooting from their regions of all our brothers and we wish to send them expressions of our sorrow, our worry, our paternal love, and our pastoral concern.

Our thoughts on these events:

We recognize the governing authorities' right to undertake necessary measures to guarantee the defense and the integrity of the territory of the nation.

We also recognize the autonomy of the state and its right to determine the implementation of emergency military measures in all or part of the national territory in order to defend the country.

Nevertheless, we wish to remind everyone that there are inalienable rights that under no circumstances can be violated and we must state, with painful surprise, that in certain concrete cases there have been grave violations of the human rights of individuals, families, and entire populations of peoples. These include: Relocations of individuals by military operations without warning and without conscientious dialog; forced marches, carried out without sufficient consideration for the weak, aged, women, and children; charges or accusations of collaboration with the counterrevolution against all residents of certain towns; the destruction of houses, belongings, and domestic animals; and the deaths of individuals in circumstances that, to our great sorrow, remind us of the drama of other peoples of the region.

Such are the facts that compel us to denounce vigorously such attitudes of those who have the power and force because they must be the first to guarantee observance of these human rights, and, we urge the competent authorities to take the necessary disciplinary measures to prevent a repetition of such events in the future.

On the other hand, we must remember that it is good to maintain the national integrity and that it is a right and historical duty of all Nicaragua to protect the nation's territorial integrity. We must also remember that it is a right and a duty to preserve the legitimate possession and use of the riches of the natural, traditional, and cultural patrimony of the indigenous people of the Atlantic coast. In these we encounter and recognize with pride, not only the ancestry of our race, but also the identity of our ancient, prehispanic nationalities.

Final observations:

After having expounded briefly these facts that denote a situation of disrespect to the dignity of the human person and the violation of their rights, we, as pastors, in open solidarity with the Miskitos, Sumos, and Ladinos of our Atlantic coast request of the competent authorities an objective investigation and adequate measures to promote peace and tranquility through the increase of justice in the region.

To you brothers, Miskitos, Sumos, and Ladinos, who with such love and work during so many years have been evangelized, we encourage you in the valiant effort to conserve, cultivate, and defend your Christian faith and subsequent hope. For our part, as Catholic bishops, we will do all possible in order that the task of evangelization is not halted, assuring you periodic visits of your bishop and of your priests, of your deacons and your nuns and religious workers. This Episcopal Conference, in common with our brothers in the Atlantic coast, asks of faithful Catholics their prayers and generous collaboration in the collection that will take place in all churches of the country in all the masses celebrated on Sunday, March 2, the second Sunday of Lent. Upon decreeing this day of prayer and collaboration in benefit of our brothers of the Atlantic coast, we are conscious that in making this denouncement we are not ignoring the efforts of the government to attend those harmed in the region. Our institution, Caritas Nicaragua, ought to collaborate in accordance with the wishes of the Episcopal Conference. We ask that nonecclesiastical institutions and organizations help our brothers on the Atlantic coast. We ask the government that it offer them facilities to provide this service directly to the needy.

Finally, given the impossibility of being able to directly help those that for the same reasons are in Honduran territory, we appeal to the charity of our brothers of the Episcopal Conference of Honduras and the fraternal generosity of their ecclesiastical institutions.

Under the maternal protection of Mary Immaculate in whose heart is concentrated our country, we make public this message in Granada, February 18, 1982.

ARCHBISHOP OBANDO Y BRAVO AND ALL THE BISHOPS OF NICARAGUA.

## INTERNAL POLITICAL SITUATION IN NICARAGUA

Mr. BRIGGS. The U.S. Government is seriously concerned about the fate of Nicaragua's east coast population.

After the triumph of the Sandinista forces in July 1979, the U.S. Government sought to aid in Nicaragua's reconstruction effort while encouraging the Nicaraguan government to follow a path of pluralism, a mixed economy, and respect for individual liberties. As has been mentioned here, $125 million was allocated for the purpose.

Over 2 years later, what do we find? Nicaragua today is a far cry from the pluralistic, peaceful, independent country the inter-American community had hoped for when it received the formal assurances of the new Nicaraguan government that early elections would be held and human rights scrupulously respected.

Nicaragua has become an armed camp, possessing an army of 25,000 and a militia of 50,000, with announced plans by the government of Nicaragua to double those figures. Compare these figures with Somoza's armed force of 8,000 to 10,000 men. Nicaragua has acquired Soviet military hardware, including tanks and artillery; and is spending over $20 million on French arms—including rockets.

It has been noted that the money which is being spent on arms could so much better be used for the country, and noted by none other than the President of Mexico on the 21st in Managua.

Nicaraguan pilots are currently being trained in Eastern Europe to fly MIG's, and its airfields, as you noted, are being enlarged, presumably for the same purpose. Out of a total of 6,000 Cuban advisers there, 1,800 to 2,000 are military and security personnel.

Behind this shield, Nicaragua's involvement in the internal struggles of its neighbors has deepened. It is the primary transit point for arms and explosives being supplied by the communist states to the Salvadoran and Guatemalan insurgents.

Nicaragua's persistent interference in Salvadoran affairs resulted in the suspension of U.S. aid to the Nicaraguan government in April of last year. Some aid still continues to the private sector, under strict controls. My colleague, Mr. Reich, may wish to address that.

Meanwhile, Nicaraguan aid to the Salvadoran guerrillas has continued to increase, and around 2,000 Salvadoran guerrillas have received training in Nicaragua. This training has stressed leadership, small unit command, sabotage, and demolition.

Domestically, the Nicaraguan government has gradually moved against those who joined the Sandinista guerrillas in the successful overthrow of Somoza. These are the democratic forces, including Social Democrats, Christian Democrats, and others who were long-time victims themselves of the Somoza era.

I should like to interject a comment here. It is not in my statement, but I believe it is worth taking note that in the neighboring country of El Salvador curiously enough the Social Democrats whose social reform program does not differ in any material respect from that of the Christian Democrats, are unaccountably alive with Marxist guerrillas. The alliance between their brothers of the same persuasion in Nicaragua with the Sandinistas has not resulted in any free elections or any other benefits of a pluralistic society to date.

The country's only independent daily, Nicaragua's only independent daily, the prestigious opposition newspaper La Prensa which played a key role in Somoza's downfall, has been closed down six times by the government. To say that its management feels inhibited would be to understate the current climate in which it struggles to survive.

The independent political parties face constant government-inspired harassment and restrictions on normal partisan activities.

The non-Sandinista labor unions have been severely restricted in their activities by the government; strikes have been outlawed.

The church hierarchy has been attacked by the pro-Sandinista press, and Managua's Archbishop Obando y Bravo—possibly the most popular figure in Nicaragua—has been banned from holding Sunday mass on television—a longstanding tradition in Nicaragua. The bishop's statement on the Miskito Indians has just now been denounced in terms which might charitably be described as "menacing" by the Sandinista government.

The private sector has been affected by arbitrary expropriations, denial of credit, Sandinista-orchestrated labor unrest, and by the 4-month imprisonment of three private sector leaders in October for writing a letter which raised questions about the future of the Sandinista revolution.

I might also add parenthetically that the terms of their letter were in many respects less harsh than the statement by the bishops.

## HUMAN RIGHTS SITUATION OF THE EAST COAST POPULATION

Most recently, and of immediate concern to this meeting today, the Nicaraguan government has taken a number of repressive measures against its east coast population. I shall not read the text of my statement now, I think we have heard about those in dramatic detail by one who is obviously much more able to express the views of his people and their fate than someone in Washington.

The native populations are not the only minority being persecuted or harassed by the Nicaraguan government. There are reports of harassment of the black, English-speaking population in the Bluefields region, apparently stimulated by their resistance to being taught communism by Cuban advisers.

Despite all these actions by the Nicaraguan government and at the risk of incurring criticism from those in this country who believe the United States should no longer countenance such an appalling performance, the administration has sought to keep open lines of communication with Nicaragua in the hope that there might yet be a turnabout.

## UNITED STATES-NICARAGUAN RELATIONS

Assistant Secretary Enders' visit to Managua on August 11 and 12 of last year sought to find a way to normalize our relations. Immediately after his visit, we submitted proposals to the Nicaraguan government designed to meet some of its concerns. Other proposals were contemplated. Unfortunately, the Nicaraguans chose not to reply in kind.

To date there has been no sign of Nicaraguan interest in moving to alleviate our concerns which are also the concerns of their neighbors and a widening number of countries and interested groups beyond Central America.

Again parenthetically I might note that the Socialist International was to have held a meeting in Caracas last week. The meeting was canceled.

The information we have was that it was cancelled because of the opposition of social-democratic parties in this hemisphere which did not want the Sandinistas to attend, and the way to get out of the problem was to cancel the meeting.

Now, why do we then say the door remains open? So long as the vestiges of pluralism are present in Nicaragua, we shall keep trying to find a means to reach the current leadership. That leadership itself is not monolithic; there is no one individual—as in Cuba—calling the shots yet.

We have a new ambassador who presently will arrive at his new post, and he will be assessing the situation. There are some recent indications of some willingness on the part of the Sandinistas to lessen restrictions on the political parties and the private sector. We shall be studying these carefully.

It goes without saying that we want good relations with Nicaragua. I think our record proves that. But it is up to Nicaragua whether this will be possible. There can be no improvement as long as Nicaragua continues to support the Marxist guerrillas in El Salvador; as long as the promise of the 1979 revolution remains unfulfilled, and the principles then enunciated by the Nicaraguan government are being systematically betrayed. The fate of the Miskitos is a most dramatic symbol of that betrayal.

I think one last comment, Mr. Chairman, I would make, that in the Department of State we have an interesting symbiotic relationship with a number of human rights organizations—symbiotic may strike some present here as an odd way to put it, but I like the word. We work together—not always at cross-purposes—throughout the hemisphere.

I would hope that in response to your initiative in holding these hearings and others which have taken place today, that some of the American human rights organizations would now show the kind of keen interest in the problem in Nicaragua that they have in problems elsewhere.

Thank you, Mr. Chairman.

Senator KASTEN. I share your hope and your concern. Thank you for your statement.

Mr. Otto Reich.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### OFFICE FOR LATIN AMERICA AND THE CARIBBEAN

### STATEMENT OF OTTO J. REICH, ASSISTANT ADMINISTRATOR-DESIGNATE FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT

### OVERTHROW OF SOMOZA DICTATORSHIP

Mr. REICH. Mr. Chairman, with your permission I would like to read a brief statement.

I appreciate the opportunity to discuss the U.S. assistance program to Nicaragua. The history of the U.S. assistance program to Nicaragua since July 1979 is illustrative not only of the history of relations between the two countries, but also tells a story about the intentions and the goodwill of the two nations.

In July 1979, the Somoza dictatorship was overthrown by a broad-based coalition. This included workers, students, farmers, peasants, businessmen, and clergy; in effect, practically every sector of society joined in the insurrection. They were united by a common desire for freedom and democracy, for the liberties which we so often take for granted.

### SANDINISTA RISE TO POWER

In the last few months of the rebellion, however, the opposition to Somoza coalesced around the Sandinista National Liberation Front—or FSLN—the only opposition group with access to weapons.

The Sandinistas promised the people of Nicaragua that the new Nicaragua would be a free, independent, and democratic country. Many people around the world also were hopeful that the Sandinistas would adhere to their commitment to democratic pluralism.

Soon, however, after the fall of Somoza, it became obvious that the Sandinistas were not about to share power with the people who had helped them get the power.

### U.S. AID TO RECONSTRUCT NICARAGUA

The Carter administration offered help in the reconstruction of Nicaragua. This action was justified as being in the best humanitarian tradition of the United States. Nicaragua's economy was devastated and its people were hungry and hurt.

In the first few months following the installation of the Revolutionary Government of Nicaragua on July 19, 1979, emergency U.S. shipments of food and medicine, often by air, averted hunger and serious public health problems. In fact, for the first 18 months after the revolution, the United States was the largest single source of assistance to Nicaragua.

This assistance included short-term financial help; wheat and edible oil under title I of Public Law 480; longer term development assistance, particularly in small farmer and urban reconstruction programs; and a variety of technical assistance programs, many involving U.S. and Nicaraguan private and voluntary organizations.

Commitments of economic support funds, Public Law 480 commodities, and development assistance resources total some $115 million since July 1979. Of this total, about $19 million was obligated in fiscal year 1979; $37 million in 1980, and over $59 million in 1981.

### AID TO NICARAGUAN PRIVATE SECTOR

The major segment of our assistance was a $75 million supplemental package passed by the Congress in 1980. The terms of this package required that the government of Nicaragua make available to the private sector at least 60 percent of the dollars and the local currencies generated by the dollars. While we do not yet have the final documentation on the use of these dollars, preliminary indications are that the 60-percent private sector equivalent has been satisfied.

I believe it is important to repeat these figures for the record because the United States is being accused of "pushing the Sandinistas into the arms of the Cubans and the Soviets" by our "refusal" to help. This is the same false charge which formed part of the early propaganda campaign of Castro supporters in this country, that we had pushed Castro into the arms of the Soviets by our refusal to help his revolution.

Fortunately, that second myth has now been put to rest by a definitive source: Castro himself has admitted that he intended all along to aline himself with the Soviet Union and to establish a Marxist-Leninist state.

### PROMISES TO NICARAGUAN PEOPLE BROKEN

While the United States was sincerely helping the government of Nicaragua, that government, almost from the day it reached power, was proceeding to break its promises to its people.

These promises included: The holding of free elections; freedom of speech and free association; freedom of worship; free trade unions and collective bargaining; free enterprise, and respect for internationally recognized human rights.

In addition, when accepting U.S. aid they promised not to cooperate with or support terrorism or violence in other countries or to intervene in the internal affairs of other countries.

### SUSPENSION OF U.S. AID

Their actions left no choice to this administration but to suspend aid. On April 1, 1981, President Reagan took that action. He did waive, however, the requirement of section 533(e) to immediately repay all outstanding loans to the government, left open the possibility for further aid to the government, and did allow the continuation of aid to the private sector. In addition, $15 million was held in reserve for several months for the government should its conduct change in a positive way.

We cannot continue to assist a government which violates the basic human rights of its people, subverts its neighbors, alines its foreign policy with such countries as Libya, Cambodia, Cuba, Ethiopia, Vietnam, and the USSR; threatens regional peace with an unprecedented military buildup, and even insults the United States by calling us, in their official anthem, the "enemy of humanity."

Meanwhile, that same government is carrying out a campaign of repression against the 190,000 mostly Indian and black population of eastern Nicaragua, and we have heard very eloquently from Mr. Fagoth on this subject.

## INTERNATIONAL OPPOSITION TO SANDINISTAS

We are not the only ones in the international community who are repelled by these actions. As my colleague Ted Briggs mentioned, just this month the Socialist International cancelled a meeting because of the issue of Sandinista representation.

It is interesting that the social democrats from this hemisphere, who are much closer to the situation than the European social democrats, insisted that the Sandinistas cannot be considered to be socialist, they are Marxist-Leninist, and therefore do not belong in the Socialist International.

The Socialist International urged the government of Nicaragua to honor its commitments to pluralism and to move away from totalitarianism.

The foregoing should make it clear that it is the FSLN that bears the responsibility for the increasingly confrontational nature of the relationship between the United States and Nicaragua. But confrontation need not be inevitable. As President Reagan said yesterday at the OAS, "We seek to exclude no one. Some, however, have turned from their American neighbors and their heritage. Let them return to the traditions and common values of this hemisphere and we will welcome them. The choice is theirs."

Thank you, Mr. Chairman.

## RECENT HISTORY OF THE SANDINISTA GOVERNMENT

Senator KASTEN. Thank you very much.

Mr. Briggs, I am told that in either 1976 or 1977 the State Department's background notes on El Salvador described the Sandinistas as a Marxist-Leninist group. Also, that within 2 months after the junta, top leaders in the Sandinista movement actually met in Moscow with Soviet leaders. I am also told that the leadership of the revolutionary group was actually put together in a meeting in Cuba.

Were we not aware of the direction that this government was going to take, and if we were, why did we pursue our aid policies? Why is it that we now all of a sudden wake up and see that something has gone wrong there?

It seems to me that the trends and the directions were clear from the very beginning.

Mr. BRIGGS. Mr. Chairman, that is an awkward question for me to try to handle, since my duties in my present job have only dated since last summer. At the timeframe you are talking about, I was serving in Paraguay. Since then I have been in Colombia and in charge of Mexican affairs. So, I have had a degree of lack of personal involvement with this problem until fairly recently.

I cannot confirm, in other words, what the background notes say. I am sure that you are right, that is what they said.

It is true that in 1978 the FSLN broadened its base in order to broaden its appeal, and sought and accepted middle-class support. In other words, it came into power when it came into power in July 1979, already with a broadened base and with some specific promises as to its performance which were given formally to the inter-American community.

## U.S. ASSISTANCE TO NICARAGUA

In the last administration—judgments which I was not involved in—a decision was taken to seek support, economic support, for Nicaragua. This support amounted to, say, about $125 million all told. The biggest item in it was the $75 million appropriation over which there was considerable debate and which contained the caveat or the conditions which Mr. Reich has mentioned on Nicaragua's not promoting terrorism, et cetera, and which in this administration—since it was clear for everybody to see—were invoked last year.

Now, some of the money, some of that $125 million, I understand, which has been given since 1979—since the Sandinista government came in—was in the pipeline and, in fact, it was aid which had been initially designed or intended for Nicaragua under the previous government.

It continued because of the assessment which was made by others in those early days of the Sandinista government that, in fact, the Sandinistas, if given a chance, would go in the right direction.

I think everything that has been said here this afternoon, including Otto Reich's statement itself, leaves perfectly clear that that is not the case.

I think you are right, I cannot second-guess my predecessors, and I do not know what judgment I would have made had I been in their position.

I do not know if that answers the question, but I have tried to give you an honest answer.

## PRESENCE OF EASTERN BLOC ADVISERS IN NICARAGUA

Senator KASTEN. In December, Newsweek magazine reported that approximately 70 Nicaraguan pilots and technicians have received training in Bulgaria. It also stated that Managua is full of Soviets, East Germans, Cubans, Libyans, and even advisers from the Palestinian Liberation Organization.

Does this coincide with your information? First of all, let us talk about the pilots and the technicians in Bulgaria.

Mr. BRIGGS. Yes, sir, it does. We understand that in Nicaragua now there are approximately 70 Soviet air force advisers; possibly another 30 from a number of countries, including East Germany, North Korea, and Bulgaria.

Yes, sir, Arafat has said that he has PLO pilots in Nicaragua training the Nicaraguans. It is hard to tell whether this is boasting or whether it is actually true. I believe Arafat has also claimed that his people are assisting the FMLN, the Marxist guerrilla side in El Salvador.

I believe the number is about 60 or 70 pilots being trained in Bulgaria to fly MIG's. So, as far as I am aware, those statistics you have given me are correct.

Senator KASTEN. It seems to me that there just cannot be any question but that this unprecedented military buildup and training goes far beyond any defensive military needs of the country of Nicaragua. Is that your assessment?

Mr. BRIGGS. Yes, sir; our assessment is that these needs, or rather this buildup, provides Nicaragua a platform, a shield behind which to mount much higher level, much more active insurgency support in the neighboring countries than is now the case.

We know, for example, that in recent weeks efforts have been made to unify the four different groups, Marxist groups, making up the insurgency in Guatemala.

According to recent news reports, Castro has not been altogether successful in this. Those people would be the beneficiaries of a large military presence in Nicaragua, as are the guerrillas, Marxist guerrillas in El Salvador, whose five groups were previously successfully united under Castro's tutelage; as we believe the three branches of Sandinismo were successfully united under Castro's tutelage in 1978.

Now, all of this information as to what went on in Nicaragua and the relationship between the Cubans and the other Communist states and the Nicaraguan government has been a gradual thing. In fact, I think one can make an argument that it has been deliberately so, so as to sort of "baby along" the world.

I think it is very important, though, the points that both of us have made, that the social democrats in the new world are now increasingly aware of the real nature of this government, its leadership in any event, and the growing consensus in the region. Those are very important developments and will obviously affect our attitudes.

I think it is quite obvious that the United States does not wish to get out in front of its neighbors on this. It is really up to the Nicaraguan government how it proceeds. There are things that it can do—both good and bad—which will obviously determine how this relationship between us works out, and if it continues, in fact.

## SUPPORT OF EUROPEAN ALLIES

Senator KASTEN. You have touched on a subject that I want to discuss. I am disturbed that we have been unable to elicit our Western European allies' support for our Central American policies, and we also have some trouble even in our own hemisphere.

The continued French sale of military equipment to Nicaragua is the most immediate case in point and is the most obvious problem.

What are we doing to gain acceptance of our policies, and are we making any progress? Are you suggesting that some progress is being made?

Mr. BRIGGS. That is a very complicated question to answer. Part of it is, what is happening in the area itself—really, what is happening there and what is known about what is happening there.

For example, to the extent that El Salvador, for example, is either depicted or seen in the outside world as a country in which human rights excesses take place, or a country in which the trend is not in the right direction—as we believe it now is—that will influence the views of others.

To the extent that the Nicaraguan government closes down or avoids closing down what is sort of a loosely called pluralism, that will influence the views of others.

Certainly, quite often the Europeans, certain Europeans, tend to look to other Latin American countries to interpret for them what is going on in Latin America rather than to us. This occasionally happens.

It is curious that last summer, for example, when the French and the Mexicans joined in a declaration regarding what should happen in El Salvador, that it was the Latin American countries, the vast majority of them, who issued in effect a counter declaration which, I believe—I suspect in any event—probably caused some interesting effects in various parts of Europe as they realized that the views of one of the community might not be shared by the views of another.

Now, let me say something, you mentioned the arms sales. A rationale for other country support, that is, non-Communist support to Nicaragua, has been to offer the Nicaraguans an alternative to overdependence on the Communist world.

Given the enormous size of the military establishment in Nicaragua it is our view that aid or sales, or whatever they may be, rather than offering an alternative, in fact, become a supplement. Thereby the starting point is somewhat dubious.

Senator KASTEN. Do you have any idea how the French Government in particular responds to the atrocities perpetrated against the Miskito Indians?

Mr. BRIGGS. I do not know, sir. I do not know to what extent the Miskito story has been reported in Europe, quite frankly; I do not know.

Senator KASTEN. Mr. Reich, for the record, how much U.S. aid has gone to the Sandinistas since they gained power? The $125 million, do we agree on that figure?

Mr. REICH. That is correct, sir. That figure includes some money in the pipeline from previous loans.

Senator KASTEN. Not to Nicaragua, but to the Sandinistas since they gained power?

Mr. REICH. That is right, to the country as a whole. There was also, as Mr. Briggs said, some amount in the pipeline from loans to the previous government.

Senator KASTEN. How much Soviet aid has gone to the Sandinistas?

Mr. REICH. I do not have that figure. However, I believe that most of the assistance has been from the Eastern bloc, not from the Soviet Union. I believe East Germany has provided some credits and Cuba has as well. I believe a large proportion of this has been in military equipment.

Senator KASTEN. Well, I think that no matter how we add it up, particularly in the areas of economic assistance, we have to have sent two, or three, or four times as much aid to the Sandinistas as the Soviets have themselves. Do you agree with that?

Mr. REICH. Yes, sir; as I said in my statement, in the first 18 months we were clearly the largest single donor of aid to that government.

Senator KASTEN. Now, Congress was told, and you just told us, that, of the funds going to Nicaragua, 60 percent would go to the private sector.

How confident are you that, in fact, 60 percent has gone to the private sector, without being unduly influenced by the Sandinista government?

Mr. REICH. We believe, because of investigations that we have been making, that that figure is accurate. We have had to hire a consulting firm, an accounting firm, to help us with that investigation. Our source for this information is the private sector groups themselves with whom we are in touch. We asked them whether they were getting the money.

Senator KASTEN. Do you have audits or evaluations that certify this?

Mr. REICH. We are now in the process of carrying out a study of that question.

Senator KASTEN. It is my understanding that it might be difficult to define what a private organization really is. In other words, that in some cases they might be fronts, that the government will have, in fact, nationalized or taken over some of these groups, but have kept it in this private organization phase, if you will, but then money is, in fact, being diverted. Is that true, is that a problem? Or can you tell us that is not going on, absolutely not?

Mr. REICH. Here with me today is Mr. Lawrence Harrison, who was our last mission director in Nicaragua.

We are reasonably sure that the organizations we are dealing with are legitimate private sector organizations because they were all in existence before the Sandinista takeover.

Now, there has been an encroachment on the private sector by the Sandinistas. For example, a number of businesses had participation by the Somoza interests, and they were taken over by the government. But those are in the minority, and we are very nearly certain that we are dealing with the private sector when we disburse funds.

### ACCESS OF U.S. PERSONNEL TO PARTS OF NICARAGUA

Senator KASTEN. Are there any AID people in Nicaragua now?

Mr. REICH. Yes, sir.

Senator KASTEN. Are they monitoring the program?

Mr. REICH. Yes, sir.

Senator KASTEN. What kind of access do they have in various parts of the country? Are there any parts of the country to which their access has been limited?

Mr. REICH. Yes, sir; I am told that they have been denied access to the entire eastern region of the country.

Senator KASTEN. Does our Government—and I guess this would go to Mr. Briggs as well—have any plans to send a factfinding trip into the Atlantic coast region? Have we demanded access to that part of the country, and what is the Sandinistas' response?

It seems to me that with what we have seen in the press, but most particularly what we are concentrating on today, some kind of an effort ought to be made, particularly to go into the Atlantic coast region. Are there any plans in place?

Mr. BRIGGS. Not as such. We have asked for permission to travel there, the Embassy has formally, twice; it has been denied.

That is why I think it would be extremely useful for nongovernmental organizations—perhaps international—to seek to visit the area. They sometimes have greater access than government visitors. We have asked, we have been denied. Our interest persists. At such time that we have access, of course, we will be there.

I do not know whether the AID angle of this is germane to the Atlantic area.

Senator KASTEN. What would happen if I asked to go, would I be denied?

Mr. BRIGGS. That is an intriguing question, sir.

Senator KASTEN. I am told that some people from 60 Minutes were recently down in that area and evidently, after a series of negotiations, had limited or qualified access. Is that true, and could you tell me what happened?

Mr. BRIGGS. I cannot tell you for sure. We are looking forward to what comes out of that ourselves.

Congressman Harkin, who recently was in Nicaragua, was taken to one of these camps, relocation camps. Now, whether that can be translated into access to the Atlantic area or not, I do not know. In any event, a recent Member of Congress was able to get out of the city and into the area where things have happened.

Senator KASTEN. You do not know what kind of limited access he had? Did he look at the burned-out villages or the gravesites?

Mr. BRIGGS. No, sir; he went to the relocation camp, or concentration camp, if you will.

## CONDITIONS IN RELOCATION CAMPS

Senator KASTEN. Is your understanding of the conditions of that camp the same as Mr. Fagoth's?

Mr. BRIGGS. In the part of my prepared statement which I did not read, I have in there a note to the effect that according to our information the conditions in the camp, according to some observers, are absolutely splendid.

The only catch is—perhaps "splendid" is too broad a term, they are not unattractive. According to one report the Sandinistas went to the trouble ahead of time of investigating the soils to see what would grow there, for instance.

The only catch is, and the reason we use the words "concentration camps" is that the people inside the camp are not allowed to leave.

I gather from what Mr. Fagoth said, some may be able to get away. But technically speaking, and this is what some recent visitors have reported to us, that the people cannot leave.

## PARTNERS OF THE AMERICAS

Senator KASTEN. Mr. Reich, in the beginning I said that I had a special interest in this because of the Partners program, and that Wisconsin is Nicaragua's partner under the program.

Now, that program utilizes some AID funds. At the present time are there any Partners programs or activities going on in Nicaragua?

Mr. REICH. There is a $100,000 project with the Wisconsin partners in Nicaragua. It includes health, training of midwives, and activities of that nature.

As you probably also know, the Partners operated a radio station that was used to help in education on the Atlantic coast. It was taken over by the Sandinistas by force and is now being used to broadcast government propaganda, we are told.

Senator KASTEN. What is the status of that $100 million program?

Mr. REICH. It is a $100,000 program.

Senator KASTEN. Excuse me, the $100,000 program.

Mr. REICH. There is the continuation of some of the training aspects of this program. Some small farmers, for example, travel to Wisconsin for training in agriculture.

Senator KASTEN. And that is still going on?

Mr. REICH. Yes, sir; the Partners in Wisconsin are providing assistance to some of the private-sector agricultural groups as well.

## UNDISBURSED AID FUNDS

Senator KASTEN. How much money for the Nicaraguan program remains obligated but undisbursed?

Mr. REICH. Are you talking about the entire program, not just for the Partners?

Senator KASTEN. The entire Nicaraguan program.

Mr. REICH. In fiscal year 1981, we obligated $59.4 million. In fiscal year 1982 we have obligated $528,000 of development assistance funds, all of which was for private voluntary organizations and for program development and support.

Senator KASTEN. Of the $59 million, how much is undisbursed?

Mr. REICH. I do not have that figure. We can supply that information for the record.

Senator KASTEN. Try to establish whether or not you have money backed up in the pipeline.

Mr. REICH. Yes, there is some money in the pipeline. We have not spent it all.

Senator KASTEN. Could you get back to us with that figure?

Mr. REICH. Yes, sir, we will give you the figure.

[The information follows:]

### UNLIQUIDATED OBLIGATIONS

Unliquidated obligations of AID assistance to Nicaragua total $30.2 million as of December 31, 1981. Of this $30.2 million pipeline, $14.1 million—47 percent—remains from funds obligated but not yet disbursed for three projects that were approved since the Sandinistas came to power and for one project that was disbursing before the Sandinistas took over. Disbursements on these projects were frozen on April 1, 1981. When they are unfrozen, the money will be used specifically for them.

### NICARAGUAN DEBTS TO UNITED STATES

Senator KASTEN. Do you know if the Sandinista government owes the United States any money under any loans, or were all of the programs grant programs? Were we involved in any low-interest loan activities?

Mr. REICH. No, the government of Nicaragua does owe, has not repaid all its loans to the United States.

Senator KASTEN. Could you also provide some detailed information of the specific amounts of those loans?

Mr. REICH. Yes, sir.

Senator KASTEN. I am assuming you probably do not have that in front of you, also.

Mr. REICH. No, I do not, but I will provide it for the record.

[The information follows:]

### INDEBTEDNESS ON AID LOANS

Nicaragua owes AID $205 million in principal plus interest. Of that total indebtedness, $55 million—27 percent—was taken on by the Sandinistas.

As of December 31, 1981, the Government of National Reconstruction is delinquent in repaying principal of $1.6 million and interest of $3.3 million. Of the total delinquent payments, no principal but $550,000 of interest is overdue on Sandinista loans.

A detailed listing of delinquent loans follows:

## DELINQUENT LOAN INSTALLMENTS AS OF 12/31/81

| LOAN NUMBER BORROWER PURPOSE | CURRENCY | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | |
| NICARAGUA | 524 | | | | | |
| 524-A-001 | | | | | | |
| MUNICIPALITY OF METAGALPA<br>MATAGALPA PUBLIC UTILITIES | $ | 120,652.58 | 06/01/81 | 28,611.86 | 4,466.75 | |
| 524-A-002 | | | | | | |
| EMPRESA NAC DE LUZT FUERZA<br>RIO TUMA HYDROELECTRIC | L/C W/MOV | 852,339.55 | 05/10/81 | 143,122.55 | 31,051.99 | |
| 524-A-005 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>ROAD PROJECT | $ | 2,203,278.68 | 08/19/81 | 45,901.64 | 8,466.83 | |
| 524-K-037 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>EMERGENCY RECOVERY PROGRAM | $ 620(Q) | 40,000,000.00 | 10/21/81 | .00 | 400,000.00 | |
| 524-L-005 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>SECOND ROAD PROJECT | $ 620(Q) | 748,380.68 | 08/19/81 | 14,674.13 | 2,872.43 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | |
| NICARAGUA | 524 | | | | | |
| 524-L-006 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>LAS MERCEDES AIRPORT | $ 620(Q) | 737,704.90 | 03/28/81 | 52,459.02 | 5,641.47 | |
| 524-L-006A | | | | | | |
| GOVERNMENT OF NICARAGUA<br>LAS MERCEDES AIRPORT | $ 620(Q) | 600,000.00 | 03/28/81 | .00 | 15,189.88 | |
| 524-L-007 | | | | | | |
| COOPERATIVE DE ABASTECIMETO<br>RURAL ELECTRIC COOPERATIVE | $ 620(Q) | 227,447.58 | 07/12/81 | 7,843.02 | 2,377.48 | |
| 524-L-008 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>CENTRAL AMER UNIV OF MANAGUA | $ 620(Q) | 337,635.40 | 05/25/81 | 19,095.66 | 12,569.49 | |
| 524-L-009 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>INFONAC | $ 620(Q) | 849,731.05 | 05/03/81 | 63,483.50 | 76,950.98 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | | |
| NICARAGUA | 524 | | | | | | |
| 524-L-010 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>CNI | $ | 620(Q) | 442,045.98 | 07/03/81 | 14,229.15 | 36,883.33 | |
| 524-L-011 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>FEASIBILITY STUDIES | $ | 620(Q) | 1,150,819.65 | 08/26/81 | 21,311.48 | 14,840.52 | |
| 524-L-012 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>TAX IMPR. & NAT. RES. SURVEY | $ | 620(Q) | 4,600,888.51 | 05/15/81 | 176,957.26 | 117,626.53 | |
| 524-L-013 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>MALARIA ERADICATION | $ | 620(Q) | 1,764,590.13 | 03/22/81 | 67,868.86 | 45,113.60 | |
| 524-L-013A | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>MALARIA ERADICATION AMEND | $ | 620(Q) | 1,588,983.58 | 03/22/81 | 61,114.76 | 40,624.02 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | | CURRENCY | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | | |
| NICARAGUA | 524 | | | | | | |
| 524-L-014 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>SELF-HELP URBAN SCHOOL CONST. | $ | 620(Q) | 1,376,876.68 | 07/08/81 | 18,006.24 | 17,656.75 | |
| 524-L-015 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>SUPERVISED AGRICULTURAL CREDIT | $ | 620(Q) | 30,142.79 | 04/06/81 | 32,786.88 | 22,209.02 | |
| 524-L-016 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>C.N.I. SECOND LOAN | $ | 620(Q) | 387,421.31 | 08/18/81 | 17,183.18 | 62,787.92 | |
| 524-L-017 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>HOUSING SAVINGS & LOAN SYSTEM | $ | 620(Q) | 233,187.58 | 05/09/81 | 121,311.48 | 83,709.00 | |
| 524-L-018 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>INDUSTRIAL DEVELOPMENT/INFONAC | $ | 620(Q) | 861,809.61 | 05/13/81 | 156,568.02 | 111,999.52 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | | |
| NICARAGUA | 524 | | | | | | |
| 524-L-019 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>SMALL ENTERPRIES (BNN) | $ | 620(Q) | 137,042.20 | 08/07/81 | 23,761.87 | 23,885.13 | |
| 524-L-021 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>RURAL ELECTRIC COOPERATIVES II | $ | 620(Q) | 314,233.90 | 05/15/81 | 237,890.64 | 248,126.04 | |
| 524-L-022 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>BASIC CROP PRODUCTION | $ | 620(Q) | 8,748,256.19 | 06/10/81 | 213,643.27 | 222,835.42 | |
| 524-L-023 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>HEALTH CENTERS RURAL MOBILE | $ | 620(Q) | 2,075,625.81 | 06/12/81 | 51,953.43 | 52,878.35 | |
| 524-L-024 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>FEASIBILITY STUDIES & SURVEYS | $ | 620(Q) | 2,622,874.65 | 06/14/81 | .00 | 52,987.38 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | |
| NICARAGUA | 524 | | | | | |
| 524-L-025 | | | | | | |
| EMPRESA NACIONAL DE LUZ FUERZA<br>RURAL ELEC. COOPERATIVE III | $ 620(Q) | 4.298.929.21 | 06/07/81 | .00 | 86.405.76 | |
| 524-L-026 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>FEEDER ROADS BETTERMENT | $ 620(Q) | 2.695.622.11 | 03/19/81 | .00 | 54.457.02 | |
| 524-L-027 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>EDUCATION SECTOR LOAN | $ 620(Q) | 5.025.975.70 | 03/21/81 | .00 | 101.534.86 | |
| 524-L-028 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>PROGRAM LOAN | $ 620(Q) | 14.981.488.30 | 05/04/81 | .00 | 302.252.28 | |
| 524-M-004 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>SELF HELP SCHOOLS | $ 620(Q) | 31.376.42 | 06/29/81 | 15.658.85 | 117.67 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | | |
| NICARAGUA | 524 | | | | | | |
| 524-T-031 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>RURAL DEVELOPMENT SECTOR LOAN | $ | 620(Q) | 12,215,252.73 | 06/30/81 | .00 | 232,217.93 | |
| 524-T-036 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>RURAL RECOVERY | $ | 620(Q) | 15,000,000.00 | 12/23/81 | .00 | 150,000.00 | |
| 524-U-029 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>MANAGUA URBAN RECONSTRUCTION | $ | 620(Q) | 5,767,317.80 | 03/05/81 | .00 | 100,714.11 | |
| 524-U-032 | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>RURAL HEALTH SERVICES | $ | 620(Q) | 1,281,904.89 | 05/17/81 | .00 | 24,871.45 | |
| 524-V-033A | | | | | | | |
| GOVERNMENT OF NICARAGUA<br>RURAL EDUCATION DEVELOPMENT | $ | 620(Q) | 278,950.37 | 03/24/81 | .00 | 5,197.39 | |

| LOAN NUMBER<br>BORROWER<br>PURPOSE | CURRENCY | BALANCE OUTSTANDING | DELINQUENT FROM | DELINQUENT PRINCIPAL | DELINQUENT INTEREST | REMARKS |
|---|---|---|---|---|---|---|
| LATIN AMERICA | | | | | | |
| NICARAGUA 524 | | | | | | |
| 524-W-029 | | | | | | |
| GOVERNMENT OF NICARAGUA<br>MANAGUA URBAN RECONSTRUCTION | $ 620(Q) | 23.999.035.41 | 03/05/81 | .00 | 458.018.51 | |

### CONCLUDING REMARKS

Senator KASTEN. I have no further questions. There may be additional questions from members of the subcommittee. The record for the hearing will remain open for 10 days, during which time members of the subcommittee may submit questions for the record. We hope that you can answer any written questions for the record within 2 weeks after receipt.

We are hopeful that we can get the details on the money in the pipeline and the loans also back to the committee.

Mr. REICH. Yes, sir.

[The following questions were not asked at the hearing but were submitted for response for the record:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### NICARAGUA PRIVATE SECTOR

Senator KASTEN. In an open letter to the government last November COSEP, the Private Business Sector Association, accused the government of egregious economic mismanagement and an undeniable Marxist-Leninist line.

Four leaders of COSEP were arrested and jailed.

The New York Times reports that businesses refuse to invest, for fear of losing all.

The situation for the private sector looks bleak, especially since the Sandinistas have, according to the Times, made it a crime to publish "false news" damaging to the economy.

And yet a businessman in Nicaragua has said that "they have not yet radicalized beyond all hope."

Is our Government still harboring illusions that the Sandinistas will rethink their position toward private business?

AID would like to continue funding for the private sector in Nicaragua. What assurance do we have that the Sandinistas won't close down businesses we assist or confiscate property paid for with U.S. dollars—as they did with AID programs on the Atlantic coast?

Mr. REICH. For many reasons, AID has provided support for the activities of the national level organizations which represent the various private subsectors of the economy. Many of these organizations are under great pressures by the Sandinista government. Three leaders of COSEP recently spent some time in jail to cite one example. Members of some of these organizations are under pressure to disassociate themselves from the private groups and join officially sponsored and controlled Sandinista organizations. It has been our strategy in providing institutional support to the private groups to broaden their base beyond the original, more affluent membership to include small producers and merchants. These institutions provide their members with technical, legal, and other forms of assistance and they promote an awareness among small producers and merchants that they too are entrepreneurs whose survival is threatened by the course of events in Nicaragua. By broadening their bases, there organizations are also trying to improve their bargaining power vis-a-vis the government.

The political and military actions of the Nicaraguan government against the Miskito Indians did include the seizure of an AID-assisted educational radio station on the east coast. We have suspended this OPG for the time being, but some hope remains that it may be reopened in the future. If this occurs, it will be due largely to the existence and pressure being exerted by PVO's, the private sector, the independent media, independent political parites, and other governments.

### CUBAN ADVISORS IN NICARAGUA

Senator KASTEN. How many Cuban advisors are now in Nicaragua? In what capacity are they there?

Mr. BRIGGS. During a March 10 intelligence briefing, CIA Deputy Director Inman estimated that there are presently 6,050 Cubans in Nicaragua. Of these, 2,000 are military and security advisors. The rest are teachers (2,200), construction experts (750), doctors and other health personnel (500), and other government advisors (600).

### STEDMAN FAGOTH—MISKITO LEADER

Senator KASTEN. Mr. Fagoth has been accused of being a Somoza sympathizer. I also understand that Mr. Fagoth was given a seat in the Countil of State—Nicaragua's legislature in 1979. If he was a supporter of Somoza, would he have been given this position in their legislature? Do we have any evidence to support the charges that he was a Somoza supporter?

Mr. BRIGGS. Fagoth, an early supporter of the Sandinistas, was named to the Council of State in his capacity as leader of the Miskito, Sumo, and Rama organization, MISURASATA. It was only after Fagoth left Nicaragua in May 1981 that the Sandinistas began accusing him of having been an agent of Somoza. We have no evidence to substantiate that accusation.

### ATLANTIC COAST

Senator KASTEN. What is your information on the relationship between the peoples of the Atlantic coast and the Sandinistas? Were the Indians for or against the Sandinistas? Didn't those people in fact aid the Sandinistas?

Mr. BRIGGS. The inhabitants of the east coast did not play a key part in the insurrection that overthrew Somoza in June-July 1979. Though there were people who were sympathetic to the Sandinistas, there were some Somoza sympathizers as well. For the most part, Somoza did not attempt to interfere in the east coast and allowed the Indians to keep their culture and customs. The east coast population did not suffer the repression and atrocities that the rest of the country experienced. For this reason, the east coast remained for the most part neutral during the civil strife.

Senator KASTEN. Do you know of any census figures done in Nicaragua's Atlantic coast region that could give us an idea of the actual number of people in that area in 1981? If so, how many? If not, how can anyone really know how many people there have been arrested, killed, or removed from that area?

Mr. BRIGGS. The actual number of Nicaraguan Indians has been a subject of much debate and controversy. Estimates vary from Nicaraguan Foreign Minister Miguel D'Escoto's estimate of 70,000 to Miskito leader Stedman Fagoth's assertion that there are about 190,000 Indians and 25,000 blacks in the east coast. A census of Nicaragua scheduled for this year has been postponed indefinitely.

On February 15, the Nicaraguan government admitted to relocating 8,500 Miskitos from their homes near the Honduran border. Miskitos who have fled to Honduras have reported hundreds of executions and arrests in the area, but we have no way of confirming these numbers.

Senator KASTEN. There appears to be discrepancy in the reports of how many Miskito Indians were removed from their villages and taken to detention camps. I understand your Department puts the number at 8,500. In an article in the Washington Post on the 7th of this month, the figure of 10,000 was mentioned. Does anyone really know?

Mr. BRIGGS. The Nicaraguan government announced on February 15 that it had relocated 8,500 Miskitos from their homes near the Honduran border. The Washington Post interview quoted a Nicaraguan official who admitted to the relocation of the 10,000 Miskitos. Both figures have come from Nicaraguan government sources. We estimate that an additional 10,000 Miskitos have crossed the border into Honduras.

## QUESTIONS SUBMITTED BY SENATOR LEAHY

### MISKITO INDIANS

Senator LEAHY. Has the Organization of American States investigated the charges made by the Miskito Indians? Has the United States requested such an investigation by the Inter-American Human Rights Commission? If not, why not?

Mr. BRIGGS. The Inter-American Human Rights Commission will send an emissary to Nicaragua in May to investigate the Miskito Indian situation. Since the IAHRC has independently decided to investigate, the United States has not requested an investigation.

## HUMAN RIGHTS

Senator LEAHY. What has been the overall evaluation of the human rights situation in Nicaragua up to this incident with the Indians? What is the view of Amnesty International or other internationally recognized human rights organizations?

Mr. BRIGGS. We note that the human rights performance of the Nicaraguan government deteriorated during 1981, especially with respect to civil and political liberties. Our complete view of the human rights situation in that country is contained in our Country Reports on Human Rights Practices for 1981, sent to the Congress in February.

[CLERK'S NOTE.—This report is being held in the subcommittee's files.]

Amnesty International's 1981 report notes concern about the trials of former national guardsmen. Amnesty International states that there were significant trial irregularities and that those 4,000+ prisoners sentenced by special tribunals have no recourse against alleged miscarriages of justice. Amnesty is also concerned about those prisoners held under the Law for the Maintenance of Public Order.

Freedom House, in its latest report (published in 1980) classifies Nicaragua as "partly free." It notes that torture, widespread killings, and brutality occurred in 1980, especially in rural areas. It also notes that the independence of the judiciary is not well developed, but that the government does not always win in the courts. Freedom House notes that unions are under pressure to join the new government-sponsored federation. Freedom House has also disseminated a report from the Permanent Human Rights Commission of Nicaragua charging that 17 peasants have been summarily executed by Sandinista military authorities May–November 1981. It has also called for an investigation of the status of Indians in Nicaragua, and charged that the government "condoned or directed" a policy of "systematic violence" against its Indian population.

## LA PRENSA

Senator LEAHY. It has been said that the major independent newspaper, La Prensa, has been closed down on several occasions in the past 2 years. Could you please explain the reasons for each closing?

Mr. BRIGGS. Since last July, La Prensa has been closed down six times for 48-hour periods. The first time was on July 10, when the government charged the newspaper with "ignoring the truth" in its reporting on four news items in the La Prensa editions of July 7 and 8. These were:

A July 7 item in which La Prensa said that the closing down of an independent radio station was a "discriminatory act";

A July 7 item accusing a press officer in the Ministry of Exterior of harassing a La Prensa reporter because the reporter objected to Marxism-Leninism;

A July 7 item and editorial comment on the tearing down of religious billboards in the vicinity of the closed radio station implying that Sandinista mobs were guilty; and

A July 8 item which reported that another independent radio station had been told not to mention the closing of the other radio station.

The second closing occurred on July 29, when the government cited an article which included a statement that the government said "made fun of" Sandinista Front founder Carlos Fonseca.

The third closing took place on August 18 when La Prensa reported an interview with Foreign Minister Miguel D'Escoto which appeared in a Mexican newspaper (D'Escoto denied that he had given the interview). The fourth closing occurred on September 28 when the government objected to a La Prensa interview with an industrialist whose business was confiscated. Forty-eight hours later, the GRN closed La Prensa for the fifth time after the paper came out with a strong editorial protesting the fourth closing. The sixth and last La Prensa closing took place on January 14 of this year when units of the Sandinista army occupied the newspaper after an incident the previous night when the government accused La Prensa security guards of firing on an unfriendly mob.

## INDIAN GROUPS

Senator LEAHY. Are Indian groups working with antigovernment guerrilla forces on the Honduran border? Is Mr. Stedman Fagoth involved in this guerrilla activity? Do you have any evidence to suggest that Mr. Fagoth worked as an informer during the Somoza regime?

Mr. BRIGGS. We have received reports that Miskito Indians who have fled Nicaragua have joined anti-Sandinista forces, but have not been able to confirm them.

As to Mr. Fagoth, we cannot confirm whether he is involved in guerrilla activities. And, as stated previously, there is no conclusive evidence which proves that Mr. Fagoth worked as an informer during the Somoza regime.

## MOVING THE MISKITOS

Senator KASTEN. Thank you for your testimony. I think that we may have served a constructive purpose here this afternoon, I would hope we could work on this more as we look at an increasing problem and increasing challenges in the Western Hemisphere, and particularly in Central America. I would like to insert a Time magazine article in the record at this point.

I thank you very much for your help and for your testmony.

Mr. BRIGGS. Thank you, sir.

Mr. REICH. Thank you, sir.

[The article follows:]

[From Time Magazine, Mar. 1, 1982]

## MOVING THE MISKITOS

### NICARAGUA USES BRUTAL FORCE ON ITS PROUD, ONCE FRIENDLY INDIANS

(By Russ Hoyle)

For weeks, Honduran soldiers stationed across the Coco River from the Nicaraguan village of Leimus watched with mounting concern as Sandinista troops began moving into the bustling town, a stronghold of the country's independent-minded Miskito Indians. Then, on a moonlit night just before Christmas, the Hondurans began hearing bursts of automatic rifle fire. An Indian mineworker, Roberto Vidal Poveda, 18, recounted his ordeal to Time Correspondent James Willwerth, who talked to a number of Miskito refugees: "During the night, the Sandinistas took us out and started to kill us, one by one. They made me stand by the river, but I jumped when they started to shoot. Two bullets hit me in my arm. They shot at me as I swam. I finally reached the other side and lay on the beach until morning."

A local farmer, Orvino Gonzales, 37, was coming down the Coco River in a boat the night the shooting in Leimus started. Said he: "It was dark, but I saw maybe 15 people taken out of a building and lined up in a launch on the water. The Sandinistas shot them with automatic rifles. The bodies fell into the water." Two days later the Sandinistas burned houses in Wiwinak, where Gonzales lived. Several miles upstream, the village of San Jeronimo was reduced to ashes.

The reported bloodbath in Leimus, in which as many as 50 Miskito Indians were shot or drowned, was part of an operation ordered by the Sandinista high command in Managua to evacuate a zone some 50 miles deep on the Nicaragua-Honduras border from Santa Isabel eastward along the Coco River to the coast. Beginning in mid-December, Sandinista forces evacuated or burned between 25 and 40 Miskito villages, allegedly killed an estimated 200 inhabitants and resettled 8,500 to 10,000 more at internment camps in the Nicaraguan interior near Rosita and Siuna. Reason for the Sandinista campaign: The Miskitos, some of whom fought alongside the Sandinistas to overthrow Nicaraguan Dictator Anastasio Somoza Debayle, had begun to chafe under Sandinista rule. Some were even known to have joined with anti-Sandinista exiles across the Honduran border.

"Everybody has the same story," said Tom Hawk, the director of the overflowing United Nations-sponsored refugee camp at Mocoron, Honduras. "You hear it again and again." The camp is in a muddy meadow of thatched lean-tos surrounded by jungle. It has become home for 5,100 Miskito Indians who fled across the border into Honduras. Another 3,000 to 5,000 are expected in coming weeks. Food shipments are infrequent, and many of the refugees had not eaten in 3 days when Willwerth visited.

The Sandinista operation was the regime's first concerted military effort to neutralize the Miskito minority, which makes up some 4 percent of Nicaragua's population of 2.7 million and occupies most of the country's vulnerable northeast region. The Sandinistas fear that the porous Honduras border, and the 336-mile Caribbean coastline, might eventually be used as a staging area for an invasion led by anti-Sandinista units. The forcible resettlement of the Miskitos was designed to prevent them from providing food, shelter, and intelligence to the anti-Sandinistas. Whatever the reason, the Sandinista action against the Indian minority was being sharply criticized last week as an indefensible abridgement of human rights.

Besides those killed or forced to abandon their homes, 160 Miskitos were jailed in the coastal town of Puerto Cabezas and 71 were found guilty of counterrevolutionary activity. Early in February the northern part of the department of Zelaya was declared a "military security zone." Even so, the Managua government still has cause for concern. A small but growing number of Miskito refugees who have escaped into Honduras are arming for revenge.

The tension between the Miskitos and the Sandinistas has been growing for some time. After the Sandinistas came to power in 1979, they initiated ambitious reform programs to improve conditions of health care and literacy among the Miskitos. Sandinista volunteers and Cuban cadres made some headway, but the Indians soon bridled at the accompanying ideology—and the fact that literacy classes were initially held only in Spanish. Disgruntled Miskito leaders quickly became a major nuisance for the Sandinistas. Suspecting growing separatist sentiments among them, Sandinista forces last year arrested 33 Indian leaders, and shortly thereafter four government soldiers and four Miskitos were killed during a shootout at a Moravian church in Prinzapolka. One of those arrested was Steadman Fagoth Muller, 27, a militant young Miskito leader feared by the Sandinistas. On his release in May, he quickly fled to Honduras, where he unambiguously declared himself in opposition to the Managua government.

According to Sandinista documents, Miskito leaders have been involved with anti-Sandinista exiles in at least 26 cross-border raids against Nicaraguan forces since November. During one of the antigovernment actions, insurgents are claimed to have driven a stake into the chest of a wounded soldier, disemboweled him, and slit his throat. That grisly incident may be pure propaganda. But there is little doubt that the offensive it was intended to justify—an undeclared war on the mostly peaceful, independent Indians who only recently were among the Sandinistas' friends—marks a new, brutal, and tragic phase in Nicaragua's revolution.

## SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will recess and reconvene at the call of the Chair.

[Whereupon, at 3:55 p.m., Thursday, February 25, the subcommittee was recessed, to reconvene at the call of the Chair.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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## WEDNESDAY, MARCH 10, 1982

U.S. Senate,
Subcommittee of the Committee on Appropriations,
*Washington, D.C.*

The subcommittee met at 10:05 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten, D'Amato, Specter, Inouye, Leahy, Johnston, and DeConcini.

## DEPARTMENT OF STATE

### Secretary of State

### STATEMENT OF HON. ALEXANDER M. HAIG, JR., SECRETARY OF STATE

### OPENING STATEMENT OF SENATOR KASTEN

Senator **Kasten**. The subcommittee will come to order.

This morning we begin our regular fiscal year 1983 budgetary hearings with an overview presentation by the Honorable Alexander M. Haig, Jr., Secretary of State.

I have a short statement, and then will yield to Senator Inouye for any statement he might have. Then we will ask you, Mr. Secretary, to begin your statement.

Your testimony this morning comes at a time when the United States faces very serious and complex foreign policy questions around the world. Foremost among these problems are the situations in Poland, El Salvador, the Middle East, and our relationship with our NATO allies.

Before we begin to delve into these specific problems, uppermost on all of our minds is the problem of balancing the budget. We worked hard last year and were successful in passing a foreign aid bill for the first time in 3 years. That was a labor of love for all of us, Mr. Secretary, but we are pleased that we were able to work that out. The Foreign Aid bill is critical to the administration's foreign policy.

Again this year we have a very real problem with the budget. The administration is again requesting cuts in domestic programs and asking for increases in security assistance and foreign aid.

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Money is tight, and I think this is a concern that must be addressed.

### SITUATION IN POLAND

The Poland situation has been of particular concern to me. The administration's policy toward the current military dictatorship in Poland has yielded no softening of martial law, and, in fact, the military dictatorship has tightened its grip and strengthened its ties with the Soviet Union.

### FOREIGN POLICY ON EL SALVADOR

In El Salvador the administration's policy is being questioned by the American people. Our foreign policy toward El Salvador has been abandoned by friends and foe alike. How can we hope to succeed with this policy if we cannot line up support of neighbors like Mexico and others, countries that have very real interests in this area?

While many of us want to support the administration's effort in this part of the world, and I do, it is difficult to do so absent a clearer explanation of our interests and more concrete exposés of Soviet/Cuban/Nicaraguan involvement. I believe the efforts of Mr. Inman and others at the CIA in the past 24 hours are helpful in this regard.

If there is evidence of outside intervention in El Salvador, it is imperative that it be brought forward. In order to make an intelligent decision with regard to U.S. policy toward El Salvador, we must have additional hard evidence, including the kind of photographic evidence that we have seen in the past several hours, and as much of that kind of evidence as possible must be made public.

In the Middle East we seem to be, on the one hand, presented with two policies, one by Defense and one by State; and, on the other hand, by uncertainty on the part of our friends in that region as to the direction of our policy.

### CONDITION OF NATO

With respect to the NATO Alliance and you, Mr. Secretary, one of the world's experts on that subject, it seems from this side of the Atlantic that NATO is not in the best of shape. Furthermore, the lack of cooperation we have received from many of the allies on questions of vital interest to the United States is causing great concern both in this country and particularly right now in the halls of Congress.

The administration has stated that the natural gas pipeline from the Soviet Union to Western Europe is not in our best interest, yet we have been unable to solicit support for our policy. Indeed, our allies continue to finance the pipeline.

In addition, our allies are extending credit to the Soviet Union even while they denounce martial law in Poland. Our call for economic sanctions has been ignored. Our continuing efforts to get the allies to increase their defense spending is ignored.

A very distinguished and respected friend and colleague, Senator Stevens, is seriously suggesting that perhaps our response to this lack of cooperation should be the removal of our troops from Western Europe, a position that has some sympathy in both Houses of Congress.

Mr. Secretary, it is in the context of these and other problems that we begin our deliberations on the administration's foreign assistance program. I believe this committee wants to be as cooperative as possible, certainly as cooperative as last year, and, of course, we will need straightforward and complete information on all the problems we discuss here today and in the coming months from you and from the State Department.

I would now like to yield to the ranking member of the subcommittee, Senator Inouye.

### OPENING STATEMENT OF SENATOR INOUYE

Senator INOUYE. Thank you very much, Mr. Chairman.

Mr. Secretary, the administration has brought about a fundamental transformation of the U.S. foreign assistance policies allocating increasing amounts of security assistance programs and comparatively less to economic assistance programs. In fiscal year 1983, for example, a $1,700,000,000 increase is requested for military assistance, while economic assistance programs are held to current year levels.

In our hearings last year you informed the committee that in the Reagan administration:

> In the formulation of economic policy, in the allocation of our resources and in decisions on international economic issues a major determinant will be the need to protect and advance our security.

Clearly the primacy of security concerns in the administration's formulation of foreign assistance policies has become evident to all.

### CONGRESSIONAL PRESENTATION DOCUMENTS

Nonetheless, at this, the first of our regular appropriations hearings on the President's fiscal year 1983 budget request, we are still lacking one of the most important documents which we use to examine the budget. I refer, of course, to the congressional presentation documents which provide details on the President's request for security assistance.

Furthermore, one of the most significant of the security assistance programs being conducted by the administration is that which is providing assistance to El Salvador. On February 4 the Chairman and I wrote to you seeking pertinent information regarding the conduct and implementation of that program, and, Mr. Chairman, this morning I received a partial response.

On Monday I asked the Chairman to postpone today's hearings until such time as you had responded to our mutual request for information and the committee had in hand the congressional presentation documents for fiscal year 1983. He declined to do so and we meet this morning.

### MILITARY ASSISTANCE TO EL SALVADOR

Therefore, Mr. Secretary, I must ask you now to clarify one of these issues. The President used his authority under section 506(a) of the Foreign Assistance Act to provide $55,000,000 in "immediate military assistance" in order to meet "an unforeseen emergency" in El Salvador. Yet, he did not, to my knowledge, comply with the provisions of section 21(c)(2) of the Arms Export Control Act which requires the President to submit a report to the Congress "within 48 hours of the existence of or a change in status of significant hostilities which may endanger American lives."

On the one hand, there is "an unforeseen emergency," and, on the other, apparently the judgment was made that this did not involve "a change in status of significant hostilities." I hope that you can clarify this apparent inconsistency.

The event which triggered the President's use of the 506(a) drawdown authority was the destruction of Salvadoran military aircraft at the Ilapango Air Force Base.

Mr. Secretary, can you assure the committee that no U.S. military personnel were stationed, assigned, or otherwise located at the Ilapango Air Force Base within 48 hours of the attack on that installation on January 27, 1982? Did this attack not represent a change in status of significant hostilities and did it not endanger American lives and property? And, in your view, does the attack on the Ilapango Air Force Base raise questions regarding Presidential responsibilities under section 4(a) of the war powers resolution?

### CORRESPONDENCE

Mr. Chairman, I would at this time ask that the entire record of correspondence relating to this hearing be inserted in the record, and I would further ask that included would be the Secretary's response to our letter of February 4.

Senator **Kasten**. Without objection, so ordered.

[The documents follow:]

## LETTER FROM SENATOR DANIEL K. INOUYE

February 3, 1982

The Honorable Robert W. Kasten, Jr.
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I want to thank you for consulting with me yesterday in reference to the President's announced intention to exercise his authority under section 506(a) of the Foreign Assistance Act of 1961 in order to authorize the furnishing of up to $55,000,000 in emergency military assistance to El Salvador. I am in basic agreement with your view that, because this authority is not directly under the jurisdiction of the Subcommittee on Foreign Operations, and because other relevant Senate committees having oversight responsibilities are currently conducting hearings regarding the exercise of the authority provided under section 506(a), we should not, at this time, hold separate hearings.

However, as I related to you yesterday, I strongly believe the Foreign Operations Subcommittee should thoroughly review this matter when we consider the President's request for fiscal year 1983 security assistance funding, which, as you know, will call for an appropriation to replenish U. S. Department of Defense stocks which have been provided previously to El Salvador under the authority of section 506(a). There can be no question that this is a matter clearly within the jurisdiction of the Senate Committee on Appropriations.

I know that you and I agree that this hearing will be highly significant and could well have a determinative impact on the Subcommittee's judgment regarding funding of Security Assistant programs. Consequently, I believe that we should begin to prepare now for that hearing. May I respectfully request that you, as Chairman of the Foreign Operations Subcommittee take the following actions:

1. Obtain from the Senate Foreign Relations Committee a complete transcript of any and all hearings held on the subject of assistance to El Salvador under section 506(a);

2. Obtain from the Secretary of State a clarification of the President's intention to exercise his authority under section 506(a) to meet "an unforeseen emergency which requires emergency military assistance to El Salvador in the absence of a report by the President (as required by Section 21(c)(2) of the Arms Export Control Act) within forty-eight hours of "a change in status of significant hostilities or terrorist acts...which may endanger American lives or property...";

3. Obtain from the Secretary of State detailed information on the number, rank, and duties of all U. S. military personnel in El Salvador, precise information as to whether any of these personnel were stationed, assigned, or otherwise located at the Ilopango air force base within forty-

eight hours of the attack on that installation on January 27, 1982, and a clear statement of whether the Administration intends to increase the number of U. S. military personnel in El Salvador;

4. Obtain from the Secretary of State, on a classified basis if necessary, a complete record of all communications between the U. S. Embassy in El Salvador and the Department of State from December 1, 1981, to January 31, 1982, to include a comprehensive set of reporting cables and transcripts of telephone conversations.

I believe that this information must be obtained if the Subcommittee on Foreign Operations is to discharge its responsibilities in this critical situation. Please be assured that I will cooperate with you in your efforts to ensure that the Subcommittee acts in the best interests of our country.

Sincerely,

DANIEL K. INOUYE
Ranking Minority Member
Subcommittee on Foreign
Operations

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## LETTER FROM SENATOR BOB KASTEN

February 4, 1982

The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Foreign
Operations
Committee on Appropriations
United States Senate
Washington, D. C. 20510

Dear Dan:

This is in response to your letter of February 3, 1982.

I agree with you, and have requested a transcript of the Foreign Relations Committee hearings on assistance to El Salvador under Section 506(a) and with respect to the other matters, the attached letter for your signature is self-explanatory.

Sincerely yours,

Bob

Robert W. Kasten, Jr.

## LETTER FROM SENATORS INOUYE AND KASTEN

February 4, 1982

The Honorable Alexander M. Haig
Secretary, Department of State
Washington, D. C. 20520

Dear Mr. Secretary:

The Subcommittee on Foreign Operations has decided not to hold hearings at this time on the new developments in El Salvador and the Administration's response to those developments. At least three other Committees or Subcommittees have held such hearings in the last several days, giving both the Administration and Congress the opportunity to express their respective views on United States policy toward that troubled Central American country.

However, since this Subcommittee will eventually have to pass on all amounts of economic and military assistance which will flow to El Salvador, it is necessary to notify you that in the not too distant future, the Subcommittee will hold extensive hearings on this matter. You can anticipate that your personal attendance may be required at such hearings in order that all aspects of Administration policy towards El Salvador be examined and explained.

In the meantime, there are a number of questions the Subcommittee has which I would like you to respond to in writing. If necessary, the answers to these questions can be furnished on a classified basis:

1. We need a clarification of the President's intention to exercise his authority under Section 506(a) to meet "an unforeseen emergency which requires emergency military assistance to El Salvador in the absence of a report by the President (as required by Section 21(c)(2) of the Arms Export Control Act) within forty-eight hours of "a change in status of significant hostilities or terrorist acts...which may endanger American lives or property...";

2. Please provide detailed information on the number, rank, and duties of all U. S. military personnel in El Salvador, precise information as to whether any of these personnel were stationed, assigned, or otherwise located at the Ilopango air force base within forty-eight hours of the attack on that installation on January 27, 1982, and a clear statement of whether the Administration intends to increase the number of U. S. military personnel in El Salvador; and

3. Please furnish a complete record of all communications between the U. S. Embassy in El Salvador and the Department of State from December 1, 1981, to January 31, 1982, to include a comprehensive set of reporting cables and transcripts of telephone conversations.

The Subcommittee must have the above information in order to prepare for a subsequent hearing, and in order to discharge its responsibilities in this critical situation.

While the Subcommittee intends to be cooperative, the situation in El Salvador is of such a serious nature that we felt it prudent to notify you at this time of our future intentions.

Sincerely yours,

Robert W. Kasten, Jr.
Chairman
Subcommittee on Foreign
Operations

Daniel K. Inouye
Ranking Minority Member
Subcommittee on Foreign
Operations

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## LETTER FROM POWELL A. MOORE

Dear Senator Inouye:

On behalf of Secretary Haig I wish to acknowledge receipt of your letter of February 4 in which you request written responses to certain questions regarding El Salvador. The requested information you seek for the Subcommittee on Foreign Operations is being gathered and will be provided to you as soon as it becomes available. I am sending a similar reply to Chairman Kasten.

Sincerely,

Powell A. Moore
Assistant Secretary for
Congressional Relations

## LETTER FROM SENATOR DANIEL K. INOUYE

March 8, 1982

The Honorable Robert W. Kasten, Jr.
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Reagan Administration has brought about a fundamental transformation of United States foreign assistance policies, allocating increasing amounts to security assistance programs and comparatively less to economic assistance programs. In fiscal year 1983, for example, a $1.7 billion increase is requested for military assistance, while economic assistance programs are held to current-year levels.

In our hearings last year, Secretary Haig informed the Committee that, in the Reagan Administration, "in the formulation of economic policy, in the allocation of our resources, in decisions on international economic issues, a major determinant will be the need to protect and advance our security." Clearly, the primacy of security concerns in the formulation of foreign assistance policies has become evident to all concerned.

Nonetheless, as we prepare for the onset of our regular appropriations hearings on the President's fiscal year 1983 budget request, we are still lacking one of the most important documents which we use to examine the budget. I refer, of course, to the Congressional Presentation documents which provide details of the President's request for security assistance funding.

Furthermore, one of the most significant of the security assistance programs being conducted by the Administration is that which is providing assistance for El Salvador. On February 4, we jointly wrote to Secretary Haig seeking pertinent information regarding the conduct and implementation of that program. As you know, Secretary Haig has yet to respond.

Mr. Chairman, at this crucial juncture in the evolution of our nation's foreign assistance program, I believe the Subcommittee would be remiss in holding a hearing for which its members had inadequate materials for preparation. Therefore, may I request that you postpone the Committee's scheduled hearing of the Secretary of State until such time as it has in hand the Congressional Presentation documents for the fiscal year 1983 security assistance programs and Secretary Haig has responded to our mutual request for information.

I recognize that a postponement of this hearing will cause some difficulty for the Subcommittee and the Department of State. Nonetheless, I believe this information to be of sufficient importance to warrant this action.

I thank you for your consideration of this request.

Sincerely,

DANIEL K. INOUYE
Ranking Minority Member

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## LETTER FROM SENATOR BOB KASTEN

March 8, 1982

The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D. C. 20510

Dear ~~Senator Inouye:~~ DAN,

Thank you for your letter of this date suggesting a postponement of this Wednesday's hearing at which the Subcommittee will receive testimony from the Secretary of State.

I too am concerned that we have not yet received a substantive response from Secretary Haig to our February 4th letter, although as you know, we have received an interim response from the Department of State indicating that they are gathering the information in order to provide such a response. I am also concerned that we do not yet have the Congressional Presentation document, although we have received, as you know, a paper from the Secretary on the International Security Economic Cooperation Program, which gives a good deal of information. Also, last Friday we received the Main Volume of the Agency for International Development's Congressional Presentation, which has much of the Administration's justification in it. In addition, we should receive the regional A.I.D. justifications later today.

While I agree with you that the timeliness of the Administration's submission of justification material is not ideal, I do not believe it justifies postponing our hearing at this late date. All of our schedules, mine especially with upcoming action on the budget resolution, are horrendous, and postponing this hearing would simply add more problems. I do believe we have sufficient information to go ahead with the hearing, and, of course, we will be able to ask any questions we wish in order to flesh out the record. Nonetheless, because of your letter, I am going to keep the record of Secretary Haig's hearing open for a longer period of time so that we will have more time to submit questions for the record.

Sincerely,

Robert W. Kasten, Jr.
Chairman, Subcommittee
on Foreign Operations

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## Letter From Senator Bob Kasten

March 8, 1982

The Honorable Alexander M. Haig, Jr.
Secretary, Department of State
Washington, D. C. 20520

Dear Mr. Secretary:

Enclosed is a copy of a letter I received today from Senator Daniel Inouye, the Ranking Minority Member of the Foreign Operations Appropriations Subcommittee.

I share Senator Inouye's concern, and would urge you to respond to our February 4th letter as soon as possible. To the extent possible, I would advise that you respond before Wednesday's hearing, or at least by the end of this week. While I share Senator Inouye's concern, I have not postponed your hearing, although it would certainly be a proper response. Nonetheless, given your schedule, as well as ours, I felt the hearing should go forward.

With respect to the Congressional Presentation documents, I would urge you to instill in your staff the necessity for providing these documents on a more timely basis. It is the principal justification material used by the Committee, and while we have received the shorter paper you provided March 2nd, the detailed presentation is necessary for our deliberations.

In the future, I am sure you will be more cognizant of our requirements, and hopefully more prompt in answering our inquiries so that we can give adequate consideration to the Administration's requests.

Sincerely,

Robert W. Kasten, Jr.
Chairman, Subcommittee on
Foreign Operations

### INTRODUCTION OF SECRETARY HAIG

Senator KASTEN. I think before we get into the specific questions, Senator Inouye, we will give the Secretary an opportunity to give his opening statement, which I understand he will summarize, and then he can respond to your specific questions.

Mr. Secretary, since it is my understanding that you have requested to leave by noon, we will have your cooperation I am sure, and take the time you would like to summarize your statement. Then we will begin questioning by the members of the subcommittee for 5 minutes each, and we will go through as many rounds of 5 minutes each as possible, alternating between majority and minority members.

Mr. Secretary, we greatly appreciate you being here today, and we would like very much for you to begin your statement.

### OPENING REMARKS OF HON. ALEXANDER M. HAIG, JR.

Secretary HAIG. Thank you very much, Mr. Chairman.

It is always a pleasure for me, and in this case a very special one, to appear before the Senate Appropriations Subcommittee on Foreign Operations to present the administration's proposed fiscal year 1983 foreign assistance program.

I think at the outset I want to take this opportunity to thank you, Mr. Chairman, for the leading role that you played in successful passage of last year's security and development assistance bill, the first we have had since 1978, and we have been operating on continuing resolutions during that very crucial period. That is an appalling commentary from my point of view on executive/legislative cooperation, and the consequences were serious.

Now I am not going to read my opening statement, Mr. Chairman, but rather make some general observations, some of which will touch upon the comments that you made and that Senator Inouye made, and also to touch upon some questions which I assume will be foremost in the minds of the members of the committee.

### SECURITY ASSISTANCE LEVELS

A question has been asked, why has this administration raised the level of security assistance request and straightlined, if you will, Senator Inouye, the economic development request of the past year.

I think it is important that we reflect on the consequences of recent American foreign policy directions and policies. It was clear that over the last 4 years, and even beyond that into the period of post-Vietnam and post-Watergate America, it began to become common opinion that military assistance, for example, was evil. And it was the policy of the last administration in their Policy Directive 13 that military assistance should be steadily declined, if not eliminated as a national policy.

### COUNTERING THE POLICIES OF THE SOVIET UNION

It is an unfortunate fact that during that same period the Soviet Union increased its level of military assistance worldwide. It became the largest contributor of arms to the developing world in the order of magnitude to two to three times what the United States was providing on major end items.

Now concurrently with that divergence of American and Soviet policy and outlook we found clear evidence in the Kremlin that there would be an increase in Soviet interventionism worldwide.

We saw that in the early period of 1976 in Angola in the African Continent. It spread rapidly to Ethiopia, to Southern Yemen where a puppet regime was established, and it immediately started operations against its northern neighbor, Northern Yemen.

We saw it in Southeast Asia in the wake of the Vietnam debacle where North Vietnam, now Vietnam, began the invasion of its neighboring state, Kampuchea, where 200,000 North Vietnamese troops are in occupation status and suppression and repression status today.

We then witnessed an intervention in Afghanistan where a puppet ruler was established by the Soviet regime, and even that individual did not meet the criteria of loyalty and discipline. Ultimately a direct Soviet intervention with unprecedented troop levels now reaching approximately 100,000 Soviet troops are occupying and repressing the people of Afghanistan.

And, finally, we have witnessed the long anticipated repression in Poland which is, of course, a source of anguish and concern to all of us today.

So clearly what we are faced with as a nation is the recognition that some of our post-Vietnam conclusions were either devoid of good sense or provided an opportunity, if not an invitation, for increased Soviet aggression worldwide with all of the dangers that that represents to international stability and peace.

So it is true, Senator, that we have had in the context of the great American political dialectic the problem of remedying years of misdirection of policy.

Now it is an unfortunate fact of life that so many forget that history did not start this past January, and we are now beginning to realize the benefits or the disadvantages of a number of months and years of misdirected American policy.

I think it is our obligation in a bipartisan sense, because these mistakes were bipartisan in character, to correct with balance and good sense those mistakes, to seek to preserve our vital interests and to give a fiber and a framework to an American foreign policy which once again recognizes that we, like it or not, have an obligation to lead in a responsible, moderate, and unequivocal way. It is the sustenance provided, the resources provided in the fiscal year 1983 Security Assistance Act that will provide precisely that.

## OTHER GLOBAL DEVELOPMENTS

Now on top of that, it is an unfortunate fact that we have a number of events converging in this coming year, the preservation of peace in the Middle East, the obligations incurred at Camp David for a high level of support to Egypt and Israel, negotiations with the Spanish and soon the Portuguese Governments for our base accesses, retention of our facilities in Greece, and the obligation to maintain stable development of pro-Western policies in the vital alliance of Turkey. All of these problems are facing us in the period ahead and they will, unfortunately, require a higher level of sacrifice by the American people.

How unfortunate it is that these chickens are coming home to roost at the very time when our own economic situation here at home is so difficult, and how it is going to take visionary leadership by the executive branch and by the responsible members of the American Senate and House to not become victims of the political dialectic. Not to assume that history started last January in partisan terms, but to recognize our joint and mutual obligation to make the sacrifices that are necessary to reinvigorate American influence and leadership around the world in the interest of peace and stability and the values that we Americans espouse. To be sure that we view this with vision and foresight, vision in the sense that we recognize the security challenge to the free world today is unprecedented, and that it is in our interest to convince the leadership in the Kremlin that the risks associated with the continuation of these aggressive policies worldwide far outweigh the advantages they will achieve.

Now why it is of particular concern to me that it involves multilateral loan institutions and aid programs for the developing world is that historically we have reached a critical point. So many of our developing leaders seized Marxist/Leninist ideology as a locomotive for political change and as a highway to political power. But what they have learned once achieving that power under Marxist/Leninist slogans is that while it is a locomotive for change, it is not an engine for economic development and growth and realization of the aspirations of their people.

So they are now groping for a new relationship with the Western world, the United States especially. If we turn a deaf ear, if we fail to meet their pressing needs in a time of escalation of energy costs and a decline in the prices they receive for one or two product economies, we are going to find these leaders themselves who have become increasingly skeptical of Marxist/Leninist policies replaced by a new generation of far more radical Marxist/Leninist advocates with a continuation of the cycle of instability, bloodshed, wars of liberation, terrorism and international illegality.

So we are at an historic juncture, and it is going to unfortunately require an unusual degree of vision and foresight and courage not only by the executive branch, but unfortunately by the legislative branch perhaps even more importantly.

## THE NATO ALLIANCE

Now some comments have been made about NATO, Senator Stevens' statement. I have just concluded 2 days of conversations with the West German Foreign Minister, Hans-Dietrich Genscher. Let me tell you why I reject and do not accept for a moment that the agonies or the disarray of the NATO Alliance in any way approaches the proportions that your comments and yours, Senator, might have suggested. Precisely the opposite. I think it is important for us to recognize that the NATO Alliance has become more vigorous and more effective in recent years, especially since Vietnam.

It is also important for us Americans to recognize that our Western European partners, at a time we drew down on our security contributions to the Alliance in an aggregate of about 13 percent over the decade of the 1970's, added in their contributions to something in the neighborhood of 22 percent.

So now suddenly because we have awakened as a nation, long overdue, first led by the American Congress, and subsequently this year by the high levels the President has requested, we say that our allies have been lacking in their sacrifices because the statistics just do not confirm it. It is going to require patient and coordinated work, and let me assure you that no one in the executive branch is happy with the contributions anyone is making to our security needs as we watch the growing threat.

But do not believe that we Americans are the pure ones in the support for the Alliance, because our record over the decade just passed is less credible and less admirable than is the Western European.

Now it is also important, I think, that we Americans who are anguishing about differences over Poland and the failure of our allies to join us in sanctions or conserted policies to emphasize Soviet interventionism in that tragic situation—memories are short. In the case of Czechslovakia in 1968, the collective governments of the Western World, the United States and Western Europe, decided that this was an internal matter, and that was a case in which direct Soviet troop involvement was obvious. The same occurred in Hungary and the same occurred in Eastern Germany in the years preceding.

### SANCTIONS AGAINST POLAND AND SOVIET UNION

On this occasion, despite the more ambiguous character of the Soviet involvement, the West is united. It has condemned what is going on in Poland today. It has attributed responsibility for what is going on in Poland to the Soviet Union. It has not been mesmerized by the ambiguities of internal repression, and it has joined together in sanctions and a policy in which we have concluded that one nation will not undercut the sanctions of the other.

In the intervening period our European partners have increased their level of sanctions, both against Poland where no future credits have been offered for 1982 and in the case of the Soviet Union where political and diplomatic sanctions have been increasingly applied.

I think it is awfully important that, for whatever reasons, we recognize the unusual character of Western unity in this crisis. And let me tell you this. If there is any single factor that will have a meaningful impact on a hoped for Soviet decision to apply moderation in the repression in Poland today, it is the perception of continuing Western unity and solidarity, and we must not forget that.

I for one thank God that our President had the good sense to institute our American policy with a full cognizance of the need to maintain Western unity and not turn an Eastern failure into a Western failure. That has not happened, and it must not in the months and days ahead.

Now with respect to some of the questions you have asked, Senator Inouye, of a more technical nature.

I very much regret that by March of this year with all of the fiscal uncertainties facing the preparation of our budget and the coordination in a year of great difficulty for the American people that we haven't been able to lay out every line in our fiscal year 1983 budget request.

We have though, as you know, provided the draft as it stands now to your staff with the understanding that it is a draft, and I think that is sufficient enough for you to shape your questions today intelligently, and I hope to answer them.

### EL SALVADOR SITUATION

Now with respect to your questions on the Salvadoran issue and the interrelationship of that with the War Powers Act and your certainly understandable concerns about that. As you know, in a letter which was provided to you yesterday, which was a response to a sweeping request for information and data, we pointed out that there were no Americans in that air facility, although there is a training team there ordinarily in working hours. There were none there during the period of your question, during the attack.

The ground rules that the President has established with respect to the American training teams or advisory groups or assistants training team, and I think it is 55 men, does in no way butt up to the obligations established in the War Powers Act. The ground rules of their conduct and performance and duties clearly is designed to prevent any involvement in operations which are military in the context of the War Powers Act.

Now in the days ahead that question may become increasingly important, depending on the level of fighting that occurs in the continuation of their current duties. I think for that reason we are prepared to deal with you on a timely, to consult regularly, to answer your questions which are legitimate and important and to do so I hope in a somewhat more responsive way than you may have felt the answer to your first inquiry was dealt with.

In conclusion, again, Mr. Chairman, I want you to know that I am here to answer any questions the members of the committee feel would be helpful to them either on the esoteric aspects of the assistance program for 1983 or on other perhaps even more significant questions which underline the logic that contributed to the structuring of that program.

Thank you very much.

### PREPARED STATEMENT

[The prepared statement of Secretary Haig follows:]

### Prepared Statement of Alexander M. Haig, Jr., Secretary of State

It is a pleasure to appear before the Senate Appropriations Subcommittee on Foreign Operations to present the administration's proposed fiscal 1983 foreign assistance program. I would also like to take this opportunity to thank you, Mr. Chairman, for the leading role you played in obtaining passage of last year's security and development assistance bill, the first such bill in 3 years. Without your efforts it is unlikely we would have had a bill.

Over a year ago, in my first testimony here as Secretary of State, I committed myself to developing a close working relationship with you, Mr. Chairman, and all committee members so that we could move together to strengthen our Nation's international position. While we have not always agreed on specific issues, I believe we have developed a constructive relationship, your wise advice has been most appreciated.

Together we have made an important beginning as we seek to reinvigorate American leadership abroad. For the first time in 3 years, the Congress has enacted foreign assistance appropriation legislation, giving substance to President Reagan's declaration that "America will not shrink from making the investments necessary for both peace and security."

But we cannot stop here. We must build on the progress we have made. The competition we face is too serious, and our own requirements too great to rest now. A first-rate American foreign policy simply cannot be run on second-rate resource.

The task of statecraft is to master events, not simply to react to them. In this complex age of interdependence, American diplomacy requires broad and flexible assets to deal with a variety of situations. Foreign economic and security assistance is a critical element in giving us such flexibility.

For too long, foreign aid has been misunderstood and underrated, dismissed as naive idealism or ineffective philanthropy. Whatever the accuracy of such views in the past, they cannot be sustained today, we are requesting foreign assistance to serve compelling national security, foreign policy and economic needs.

Today, I would like to explain the President's request for an increase of $1.4 billion in security and economic aid in fiscal 1983. With your permission, I would also like to submit for the record a short but comprehensive report that details the major elements of our fiscal year 1983 foreign assistance proposals.

As you know, the President has already asked for a supplemental appropriation for fiscal year 1982 of $350 million to meet our economic assistance commitments under the Caribbean Basin Initiative and an additional $60 million in security assistance for this area.

Let me be more specific about the risks to American national interests that would be the consquence of inadequate foreign assistance:

We would not be able to help reduce the economic misery in the Caribbean Basin that encourages domestic violence and external intervention.

We would risk critical setbacks to our peacemaking efforts in the Middle East and southern Africa.

We might lose military facilities essential to the defense of Western interests in distant but vital regions of the world. Our access agreements with Kenya, Somalia, Oman, and others help us to sustain a U.S. presence all along the vital oil routes to the Middle East.

We would court the danger of further deterioration in the military capabilities and economics of key allies, such as Turkey.

We might encourage the subversive efforts by Soviet and Soviet proxy forces. Our assistance is vitally important to countries friendly to the West such as Pakistan, Sudan, Yemen, Morocco, Tunisia, Somalia, and Oman that are under growing pressure from Soviet client states.

We risk damage to important markets and commercial ties, today more than one-quarter of our agricultural and manufactured exports goes to the developing world.

Finally, we might weaken valuable multilateral financial institutions which have contributed to economic growth and must continue their role in economic development.

The President's program of foreign assistance is not only a safeguard against all those dangers, but an integral element of the President's foreign policy. It is absolutely necessary if our strategies are to succeed in achieving their objectives. For example, our policy in the Middle East pursues two goals: The search for a just and lasting peace and the urgent requirement that our friends in the region be secure against threats from the outside and from Soviet surrogates and radical forces within the region. These goals reinforce each other. No peace is possible unless local countries are secure from outside coercion; and security will not be achieved if we fail to address the underlying sources of conflict and instability.

Our foreign assistance serves both of these goals. It seeks to advance the welfare of the populations and the economic health of their countries to promote economic and political stability throughout the region. The security and economic health of Israel and Egypt give these nations the confidence to continue on the path toward peace begun at Camp David.

Similarly, our policy in Southwest Asia seeks to insure Western access to oil from the Persian Gulf. Almost all the countries in the area stetching from Pakistan to

Morocco are economically troubled. In addition, they face potential subversion or regional threats, in many cases, supported by the Soviets or their proxies. Our 5-year program of military modernization and economic assistance will help Pakistan to meet the Soviet threat from Afghanistan and facilitate the development essential to internal stability. Our assistance helps Sudan, Morocco, and Tunisia to face threats of subversion or aggression emanating from Libya.

In the eastern Mediterranean, we seek to strengthen our relations with two major allies, Greece and Turkey, to buttress NATO'S vital southeastern flank, and to facilitate the search for a solution to the Cyprus problem. Our assistance is required for a strong Turkey, which lies at a key geo-political crossroad, the intersection of our NATO, Southwest Asia, and Middle East interests. Both security and economic stability are necessary to maintain the momentum toward restoration of democratic institutions in Turkey. Security assistance also helps a democratic Greece fulfill its NATO responsibility.

In the Caribbean, the President's policy seeks to provide both the economic help that the nations of the region need to overcome legacies of poverty and injustice and the security assistance needed to prevent Castro from exploiting those conditions to establish new totalitarian regimes. We must provide the resources needed until increased investment, a strengthened private sector, and expanded export markets enable these countries to achieve economic self-sufficiency. The amounts for security assistance are modest, equalling just over $100 million out of a total aid request of $675 million for the entire basin area.

El Salvador, where insurgents seek to prevent elections and destroy the economy, would be the largest single recipient of both security and economic assistance. Jamaica will continue to need substantial assistance in order to restore the vitality of its shattered private sector. Our support for Costa Rica's rapidly deteriorating economy will help that country to carry out fundamental economic reforms and to preserve the longest democratic tradition in Central America. In Honduras, another move toward democracy faces the dangerous combination of a quickening economic decline and a political-military crisis upon its borders.

To assure the most effective use of our scarce resources, the President has realigned foreign assistance allocations with careful attention to priorities. The promotion of truly lasting economic growth remains one of our key objectives. Our program recognizes that assistance alone will not guarantee economic development. Growth also requires proper economic incentives, national commitment and a reliance on the creativity and resourcefulness of the individual.

The program also responds to the pressing needs of key strategic nations for increased economic support and concessional military sales. Such nations must receive help in order to bolster their defense against outside subversion and to prevent economic crises.

Our new focus on essential strategic and development objectives should not obscure our pride in the continuing American commitment to traditional humanitarian objectives. We remain the major source of assistance to refugees in Africa, Pakistan, Southeast Asia, and the Middle East. We direct the bulk of our development and food aid to the world's poorest countries. These countries—with limited access to private capital markets—depend on concessional assistance to support their development efforts. To meet these needs, President Reagan committed the U.S. at Cancun to maintaining assistance levels to these nations.

## CONCLUSION

Mr. Chairman, I recognize that approval of foreign assistance in this time of austerity will be difficult. But we shall pay a greater price later if we do not act now. America's most essential interests are under attack. The President firmly believes that the resources he has requested are crucial to defense of these interests and to the promotion of a more peaceful and secure world. Our Nation's security tomorrow requires that we make an investment in foreign assistance today.

## TIME LIMIT ON QUESTIONING

Senator **KASTEN**. Mr. Secretary, thank you very much.

We will begin 5 minutes of questioning, and just for the notification of the subcommittee, we will use the light system so we can have a general feeling as to how much time we have.

### THE SITUATION IN NICARAGUA

Mr. Secretary, this morning, attention is focused on Nicaragua, particularly on stories carried on the front pages of some newspapers regarding the report that President Reagan has authorized covert operations against Nicaragua in the form of a 500-man paramilitary force with a $19 million budget.

Yesterday afternoon I spent about an hour with the Nicaraguan Minister of Agriculture, Mr. Jaime Wheelock, in an effort to learn from him as much as I could about the situation there.

I wonder, are these reports true that we have authorized covert operations in Nicaragua?

Secretary HAIG. Well, Mr. Chairman, I think the story you are referring to is a replay of an earlier Washington Post story of about a week ago. I think, Mr. Chairman, you know as well as I that as a matter of consistent and longstanding policy, it would be inappropriate for me to comment on covert activities in a forum such as this. But I would certainly hope that that policy position which is long standing does not suggest a confirmation of the reports in that newspaper.

### MILITARY BUILDUP IN NICARAGUA

Senator KASTEN. We are increasingly concerned, Mr. Secretary, about the growing military buildup in Nicaragua. It is clearly of an offensive and not defensive nature—with the tanks, the 25,000 or 30,000 people now armed, the hardening and the strengthening of the airfields, and the continuing reports about Nicaraguans being trained in Bulgaria and other Soviet satellite countries to fly airplanes.

What can we do to stop this growing buildup?

Secretary HAIG. Well, here again, Mr. Chairman, I think this is an extremely important contemporary question, and I would lament somewhat that the focus of public opinion and the media's attention is almost exclusively on the microcosm of the Salvadoran situation.

This is a situation that is global in character. It involves not only the steps which are being analyzed, dissected, bisected and debated with respect to what we are doing for the economic development of the Government of El Salvador which is threatened by external intervention, but the security needs of that government which we have attempted to meet to enable them to hold their heads above water to continue with the reforms that we so avidly support, land reform, trending toward pluralism and democratic due process, and the interrelationship of that with what has happened in Nicaragua since the successful Sandinista revolution several years ago.

The assurances that we had in the months before the successful outcome of that revolution in Nicaragua that there would soon be a national plebiscite to permit self-determination by the liberated populations of Nicaragua which has been quite to the contrary supplanted by increasing totalitarian tendencies, and even to this day the leadership in Nicaragua insists that the revolution itself constitutes the national plebiscite even though polls taken within the private sector suggest that something in the neighborhood of a quarter of the people of Nicaragua support the current regime and the other three-quarters are violently opposed to its policies, and that there is no hope for an election in that country until even 1985, if then, and contrast that to the efforts of the struggling leadership in Salvador which this month will expose itself to national plebiscite even under the dreadful conditions with which they are operating.

But bear in mind these are the local manifestations of a global problem, the solution to which is not going to be found by the level of assistance we give to El Salvador or don't give or the number of American advisers, but rather on far more critical strategic questions yet to be answered, and they are the questions about future Cuban policy in this hemisphere and future Soviet policy worldwide.

Anyone who attempts to debate in the press or otherwise the prospects for successful outcome in Salvador that fails to assess the broader implications and the efforts that must be undertaken with respect to the Soviet Union and Cuba is, of course, dealing with the leg or the trunk or the tail of the elephant. I hope I have put some balance in the contemporary debates.

### NUCLEAR FREEZE PROPOSALS

Senator **KASTEN**. Mr. Secretary, I would like to ask you about the so-called nuclear freeze proposal that Senators Kennedy and Hatfield are proposing, I believe today. Does the administration believe a nuclear freeze would further U.S. security interests?

Secretary **HAIG**. Well, I had a telephone call from Senator Kennedy last night informing me that this proposal would be put forward suggesting that he regretted that it hadn't been discussed with us before then. I am aware of this freeze proposal, however, because it has a number of supporters, well-meaning supporters, and I would just make the following general comments.

This freeze proposal is not only bad defense and security policy, it is bad arms control policy, as well. It is clear that the Soviet Union over the past 15 years has outspent the United States in the development of their strategic nuclear capability by substantial margins, each year and every year for the past 15. That has enabled them to develop a level of existing and future strategic superiority in especially the instantaneous hard target kill capability and large ballistic missile imbalances have developed.

I would consider it to be very destabilizing were we today to freeze the contemporary balance into an imbalance. That will not contribute to progress in either arms control or meet the vital security interests of the American people.

Now, I want to emphasize that President Reagan's arms control policy is not to freeze at unacceptable levels that we have already reached, but rather to achieve substantial reductions in levels of nuclear armament and to do so in a way that we can verify such reductions have taken place.

Unfortunately, this freeze proposal runs directly against both of those principles, and I am particularly concerned at this time that such a proposal would come forward in the midst of the INF discussions which are underway in Geneva in which we seek to eliminate in the land-based sector the threat entirely by the so-called zero action.

Now the freeze as applied in Western Europe would be to freeze in place a minimum of 3 to 1 Soviet superiority and something more analytically in the neighborhood of 6 to 1 superiority of Soviet systems. The instability and the political disarray of such a proposal by the U.S. side could be devastating not only in terms of the future direction of Western European policy vis-a-vis the Soviet Union, but more importantly to undercut the very initiative that we have just lost in these discussions.

So while one cannot question the well-meaning motivations of this resolution and this proposal, one must analyze the practical consequences of it, and for that reason, I am very concerned about it.

Senator KASTEN. Thank you, Mr. Secretary.

Senator Inouye.

Senator INOUYE. Mr. Chairman, before proceeding with my questions I would like to make some observations.

Mr. Secretary, I agree with you that having to operate the foreign assistance program under continuing resolutions for 2 fiscal years is, as you have noted, outrageous and unacceptable, but I hope the record will note that this committee and this Senate has always passed the bill, and I am certain you know why it didn't pass the other side.

Second, I listened to your statement on NATO very carefully and with great interest and I notice that you were pointing your fingers at the both of us here, but I don't recall any of us making any statements on NATO here.

Third, Mr. Secretary, I notice that many speakers from the State Department and from the administration have tried to assure us that since the numbers are small, just 55 or 50 men in El Salvador, our presence is almost minuscule and should not be of major concern. But I can't help but recall, because I was here then, that our initial involvement in Vietnam was just 50 men.

### THE MEXICAN OFFER TO MEDIATE

Mr. Secretary, can you provide the committee a brief synopsis of President Lopez Portillo's offer to act as a communicator in his effort to resolve the conflict between El Salvador and the United States and Nicaragua? What is the present state of the discussions between the United States and Mexico?

Secretary HAIG. I would be happy to, Senator. Incidentally, there was a comment about NATO and the Stevens' troop withdrawal resolution or threat which had a very unsettling effect in Europe I can assure you, and which I do not believe represents a consensus view.

Senator LEAHY. By whom? I didn't understand.

Senator KASTEN. I made a comment in my opening statement before Senator Inouye was here about the questions in NATO and about the Stevens' Mansfield-like resolution.

Secretary HAIG. Now with respect to your question, Senator, I think it is first important to point out to the members of the committee that last August the United States had discussions with the leadership in Managua which involved proposals designed to deal with what subsequently has become and was even then a serious threat to stability and peace in the hemisphere.

We proposed reductions in the levels of armaments, mutual guarantees that could be applied with respect to threats and the resumption of normal levels of assistance to the Nicaraguan Government for their development efforts. The sine qua non, if you will, of that proposal that we made was that they would cease their interventionism in neighboring El Salvador through training, armaments, command and control and direction.

At the time our efforts were rebuffed. We continued on through the fall and sent several specific fleshing-out proposals, if you will, for certain aspects of those offers for negotiated settlement to which no satisfactory response was provided.

During that period I kept the Mexican Government fully apprised of what we were doing, and we have stayed in fairly close consultation both through President Lopez Portillo and my own contacts with Foreign Minister Castañeda.

Now the recent visit of the Mexican President to Managua included a speech in which there were proposals made for nonaggression assurances between Nicaragua and their neighboring states, the possibility of reduced levels of armaments and the character of armaments that would go into Nicaragua in the months ahead in return for nonaggression commitments from the United States vis-a-vis Nicaragua.

These are extensions, if you will, of the earlier discussions that the United States initiated unilaterally, although they were somewhat broadened by President Lopez Portillo. Before he made those proposals publicly, he informed President Reagan by correspondence precisely what he was doing.

Our analysis of his proposals as we received them and as his speech presented them were that they lacked the sine qua non assurance that we felt was vital to any successful negotiation with the Government of Nicaragua, and that was that they would commit themselves to cease and desist in their involvement in El Salvador and among other neighboring states, for example, Costa Rica where there are already signs of some Nicaraguan activity.

Now this past weekend, after we had had some indications that perhaps the Mexican proposal was not totally insensitive to that requirement, I met with Foreign Minister Castañeda in New York. We spoke for some 2½ hours, and we went through the entire Mexican proposal, our own viewpoint of that proposal, and I think we moved the dialog forward in a constructive way. We will continue these discussions this coming weekend in New York when I will be up there to meet with the other members of the Caribbean Basin Initiative, Canada, Venezuela, as well as Mexico.

So the answer to your question is I can assure you that President Reagan has never rejected the concept of exploring every feasible means possible to bring about a peaceful and acceptable outcome to this crisis in the region. And those discussions have involved all of the contributors to the crisis, Cuba and the Soviet Union as well, as they indeed must. Now they don't lend themselves to day-to-day public exposure, and that perhaps has contributed to some of the skepticism and controversy that you talked about, Mr. Chairman, in your opening statement. But I would hope that the members of this committee and the American people would give their President credit for understanding the seriousness of this situation and the need to avoid further conflict or an expansion of conflict, if that is in any way possible.

This is a two-way street. It is not a decision to be made here by public opinion, by the American press or by the American Congress or the executive branch. It requires reciprocal obligations by those who have brought about this problem in the first instance.

I hope I have answered your question.

Senator INOUYE. May I just follow this?

Senator KASTEN. Yes.

Senator INOUYE. I was pleased to learn that the administration will follow any avenue to bring about a resolution of this problem in Central America. Does this include negotiating with the leftists?

### NEGOTIATIONS IN EL SALVADOR

Secretary HAIG. Well, Senator, I think here again there has been a lot of misinformation on the airwaves. It is not the position of the U.S. Government to negotiate on behalf of the people of El Salvador when they have a responsible government to do that. That government has always been willing to negotiate with the leftist guerrillas even though they recognize they are externally directed and commanded and controlled. There are many elements that are not and that are responsible advocates of a pluralistic democratic outcome. It has always been willing to negotiate.

What does it want to negotiate? It wants to negotiate the provisions for a peaceful plebiscite, an expression of the self-determination of the people of El Salvador. What it has rejected is the kind of negotiation in which the left is insisting on and which many misinformed Americans are supporting, and that is not a negotiation at all, but to sit down and redistribute power between the extreme left and those who are incumbents in El Salvador today, and to do so without reference to the will of the people of El Salvador, much like the great Vietnam solutions that were debated so incessantly and which have reflected the democratic process in the intervening years I don't think.

Now this is President Duarte's view, and we support that view. No one has rejected negotiation in which people would be willing to lay down their arms and sit down and negotiate a formula for the expression of the will of the people in accordance with American values, and I hope future Salvadoran values.

So there is your answer.

Senator INOUYE. Thank you, sir.

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, Senator Specter has a pressing engagement at the White House, and I would like to yield to him at this time.

Senator KASTEN. Fine.

Senator Specter.

### WAR POWERS ACT

Senator SPECTER. Thank you very much, Senator D'Amato. I appreciate that.

As the history has evolved following the Korean conflict and Vietnam, I am concerned about the constitutional power of Congress to declare war and the authority of the executive branch to commit American troops, even for a brief period of time.

It is a concern of mine that we may find ourselves in a situation where there is no real alternative but to continue the path which has been started by the Congress. A fundamental principle of the Constitution requires that the Congress, and the Congress alone, has the authority to declare war.

Does it make any sense, in light of that constitutional requirement, that American troops can be committed in a way which may be irreversible without the declaration by Congress?

Secretary HAIG. Well, Senator, I recognize clearly the implications of your question and the basis for your concern. We have had two involvements in this century, in Korea and Vietnam, which could certainly raise the hackles of responsible legislators. But I think if you go back and examine both of those involvements, and that was before the War Powers Act, that the consultation and the involvement and the consensus of both Houses of the Legislature fully supported the executive branch. Had that not been so, the events probably would not have unfolded as they did. I am just giving you an objective historic observation.

Subsequently we have passed a War Powers Act which places even greater limitations on the executive branch with respect to the concerns you have expressed.

Now I for one am never encouraged or never view with tranquility, if you will, encroaching restrictions on the conduct of the executive branch or the President's ability to conduct our foreign policy.

One of the great misreadings of recent history would be that these definitive limitations contribute to peace, stability, and noninvolvement. I would suggest that a proliferation of inhibitions on executive privilege and authority, which our Constitution also is very clear on, raises the prospects of miscalculation by those who do not share our values and raises the likelihood that they will incur risks that may in the final outcome bring about the very involvement that you are so concerned with.

The American system is one in which the American people choose an executive to lead our country and the Constitution provides authorities with which he can conduct that very onerous and increasingly onerous set of responsibilities. I am one that views with great skepticism and caution any inroads.

The American people also have the ability when their executive leadership misperforms or misjudges or gets out of step with their own concerns to replace him, and that is a pretty solid system, and you also have very many safeguards to shape and direct because you control the purse strings through which these operations take place. That is why I am here today, to deal with the purse strings.

So I would urge you to be very, very careful and not to become hypnotized by contemporary pressures and doubts which I feel have looked less at the broader implications of the Central American crisis than both fact and our interest would suggest.

### COMPARING EL SALVADOR TO VIETNAM

Senator SPECTER. Mr. Secretary, speaking of contemporary pressure, on the recent congressional recess, the concern in my State for the Salvadoran situation was nosed out only slightly by unemployment. My mail runs very, very high on a subject which is of grave concern to the people of Pennsylvania and—on the national level—about El Salvador becoming another Vietnam. That is the simple question on so many American minds.

To what extent is it possible to assure the American people that El Salvador will not become another Vietnam?

Secretary HAIG. Well, El Salvador is not Vietnam. If one would look back at the experiences of our involvement in Vietnam, the creeping involvement of the United States, which I am not a Johnny-come-lately on because I was concerned about it at the time working very close to the policymakers who led our policy decisions at that time. So I am not a Johnny-come-lately.

I thought there were several mistakes in the Vietnam case. One was that no really profound analysis and judgments were made as to whether or not this was a matter of vital interest to the American people. There was a perception that we could have guns and butter, and we could conduct a steadily, ambiguous, escalating involvement and still not disturb the well-being and complacency of the American society here at home.

We believed that it was an internal matter, that Hanoi was an advocate of national liberation and the elimination of the repression that Diem and then the Thieu regime constituted, that the freedom of the press was in jeopardy and all of the other things.

Where are we today? A million butchered, a million and a half set to sea by boats, a million of their neighboring Cambodian brothers butchered. Where is that great voice of American conscience which we are hearing once again in Salvador and which is suddenly being quieted as we watched the repression taking place in Southeast Asia?

Now I happen to believe that had we addressed the issue, is American national interest involved and what were the strategic contributors to Southeast Asia—the Soviet Union, its support for Hanoi. Misunderstood, at the time, ambiguities between Chinese policies in the region and Soviet policies, which as late as 1971 contemporary logic here in Washington suggested if we did anything vigorous against Hanoi we would bring the Chinese hordes into the defense of the North Vietnamese. Why they would have sat back and applauded, and indeed they are today the police force doing the work of the American people in preventing Hanoi from overrunning neighboring Thailand and perhaps Burma and the rest of the whole peninsula.

So that was Vietnam. And, frankly, I don't know that we would have decided that the outcome there was in the vital interest of the American people. If we had decided no, we should have kept out, as the military recommended to President Eisenhower in the earlier French involvement. They said don't get involved. It was Gen. Mat

Ridgway who made that recommendation to President Eisenhower, and he listened to it.

But if you do get involved, be sure you understand the American people can support such an operation only to the degree they have confidence it will succeed and that their interests are involved.

Now we violated all of that in Vietnam, and it is a tragedy because we are still paying the price.

### U.S. INTERESTS IN CENTRAL AMERICA

Now let's take a look at Central America. Here in our own hemisphere. Here is the area that controls the vital Panama Canal, that controls the vast millions of people who are today experiencing socioeconomic deprivation and are seeing that deprivation and state of affairs exploited by external powers in the interest of installing a totalitarian outcome.

Here is an area where half of our trade passes through. Here is an area where half of our energy passes through. Here is an area which is fundamental to our logistic ability to support a conflict in Western Europe should it occur. Here is an area from which today countless refugees, undocumented entries are coming into our society with the social economic burdens that has placed on our State governments and on the Federal Government and on the ability of our society to absorb them.

Why those levels which reached 1.5 million alone will be miniscule compared to what we will witness if totalitarianism spreads in Central America; minuscule. And what then will the American people do? They will want to know why you, Senator, and I let this happen, and why we didn't do all within our power to assist the economic and social needs of those people, our neighboring people, and above all, to insist that external powers keep out.

So I think they are very different areas for American interests.

Senator KASTEN. Senator Johnston.

### SANCTIONS AGAINST THE U.S.S.R.

Senator JOHNSTON. Mr. Secretary, you talked about increased Soviet intervention from Central America to Poland and Afghanistan. Now it seems to me that there are two things that we can do very effectively to sanction the Soviets, and that is to deal with the Soviet gas pipeline and to deal with the Soviet debt, the Western debt in Eastern Europe.

Now my first question is with respect to the Soviet gas pipeline. Is it not a fact that the present plans call for using American technology licensed by American companies through European vendors and cannot we effectively either prevent or certainly slow down and cause a restructuring of that pipeline? You have said it is against our interests. Can't we effectively do it? And if we can slow it down or stop it, why don't we?

Then, secondly, if you would deal with the question of why we should be paying in effect to subsidize the debt to Eastern Europe.

Secretary HAIG. Well, first, Senator Johnston, this is an important question, and I think it deserves a very careful and measured answer.

It is important to recognize, as I pointed out in my opening statement, that history did not start this past January, and too many of us seem to assume that that was the case, and it is convenient for some and maybe encouraging for others.

Now the pipeline negotiations, which began in about 1976 in Western Europe, were unchallenged with much vigor by the American administrations throughout the period.

Now I was a NATO Commander in Europe, and I lived there and I watched the evolution of it, and I expressed my concern frequently about the implications of this. But I think it is important also for the American people to know what those implications are.

We are talking about a dependency level, and I am speaking from the perspective of a West German leader, of about 5 percent of the total energy needs of the West German Government.

They have done studies over the years to analyze whether that level of dependency from their point of view would make them vulnerable to blackmail in time of crisis from the Soviet Union.

Their current level of dependency on Middle Eastern oil and energy resources is manifestly higher, 75 to 80 percent. They felt that they were more vulnerable to a conflict in the Middle East, given the danger there and what could happen in such a conflict and should that energy be cut off. So they wanted to diversify.

Unfortunately, they couldn't pay the prices for some of the North Sea oil and energy and natural gas of the Dutch, which is far more expensive. So they felt on a cost-effective basis, and I am giving you their logic, that that diversity of dependence, which is roughly 5 percent of their energy needs for which they had contingency plans to absorb a total cutoff at any time, was more in the overall interests of Western security than total dependence on the Middle East with all the uncertainties there.

Now during that period contracts were signed, commitments were made, industrial projects were planned and employment was undertaken and that reached a rather high level of sophistication by the time this administration came into office, at which time we concluded that we should do all in our power to dissuade the Europeans from joining in this pipeline or at least to limit their extent of involvement, their two basic lines involved, and maybe cut it in half.

Now what did that involve? That involved an obligation on our part, which we committed ourselves to at Ottawa this last summer, that we would try to offer them some alternative to that excessive level of Middle Eastern dependence which would be cost effective and attractive.

Now in the process of trying to put such an alternative program together, it unfortunately fell within the executive branch and certainly would have within the legislative branch on the rocks and shoals of American economic shortcomings in this current environment, because we look at coal substitutes for Western Europe, and any exploitation of the vast coal resources of the United States would involve port improvements and those port improvements would be very costly and our budgeteers in this austere environment just felt we couldn't make those enhancements, and they went back to the drawing board to try and reshape another attractive program.

In the meantime, there had been a great deal of concern expressed, especially in the light of the Polish crisis, that this pipeline is not in our interests. Well, we Americans have taken that position consistently in this administration.

Senator JOHNSTON. Well, could we stop it if we wanted to?

Secretary HAIG. No.

Senator JOHNSTON. Could we slow it down?

Secretary HAIG. Not meaningfully, and the cost of trying to do so in terms of mutual confidence and allied unity would be substantial.

### EASTERN EUROPEAN DEFAULT

Senator JOHNSTON. How about the Eastern European debt?

Secretary HAIG. The Eastern European debt, you are talking default?

Senator JOHNSTON. Yes.

Secretary HAIG. Well, we have made very careful calculations which are supported by our allied partners as well, and I think most of the economic experts I have talked to, not all, believe that it is best to keep the pressure on the Soviet Union and the Polish Government to be responsible financial partners in the arrangements that have already been agreed upon, to meet their debt obligations and to pay them. Why? Because they clearly are in a cash bind, the Soviet Union is in a cash bind.

Senator JOHNSTON. If we don't put on the sanctions now after Central America and Poland and Afghanistan, what are we waiting for?

Secretary HAIG. It is not a question of being reluctant to be too tough. It is a question of believing that the maintenance of the debt obligation is a tougher outcome for the Soviet Union in this environment than it would be to call the Poles into default and give an excuse for cancellation of obligations.

Now no one has precluded that at whatever moment it appears to be the right thing to do, to be the most effective leverage, to call default, but it is our very considered judgment that that is not the course of action that applies the greatest pressure. It is precisely the opposite. And I think you and I are talking in the same terms, you want to apply pressure.

### SEARCH FOR A FOREIGN POLICY—ALLIED SUPPORT

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman.

Mr. Secretary, following up on something that Senator Johnston was alluding to, it appears to me that there is a widespread impression that many of our people and, yes, some of our colleagues in the Congress have, that there is a lack of an appropriate response on the part of the United States and its allies, whether it be in terms of the suppression of the Polish people and Solidarity, whether it be in terms of Afghanistan or whether it be historically, going back to the Russians moving into Czechslovakia, Hungry or East Germany. You know, Santayana said it best, that those who fail to observe the lessons of history are doomed to repeat and make the same mistakes.

It would seem that there comes a point in time when we should recognize that rhetoric, that condemnation and empty rhetoric without any kind of meaningful economic sanctions or the kinds of power that we can bring to bear means very little to the Russians. This is their history. And I for one have to indicate my displeasure and dismay at what is perceived by many to be empty rhetoric in connection with the events that have transpired in Poland and our response, and particularly the response of our allies.

Broadening that, it would appear to me that if we have substantial and vital interests, and I do believe we have, that we haven't focused in on it sufficiently enough in terms of the kind of refugee problems that you alluded to in Central America, in terms of the vital interests, in terms of Mexico and what takes place and in terms of the Canal.

Aren't we engaged again in that same kind of undisciplined, and that is the perception of rhetoric without clearly stating a policy clearly defining, and do we have initiatives that can be taken? And I refer to your own statement where you said a solution is not to be found in increased economic aid as such or military aid to El Salvador. That is not the solution.

Do we have and are we charting a course, because certainly the American people want to know that that does not mean the introduction of troops into the area? Are we talking about the kinds of initiatives that might mean an embargo or blockade of Nicaragua or Cuba, because you by your own words said that this is not just the Nicaraguans sending over but it goes back to Cuba and it goes to Russia.

I think those are the kinds of things that the people are concerned with. So it is a twofold question that I put to you.

Then let me give you one third observation.

Secretary HAIG. Well, I hope you see, as I saw, the inherent contradictions in the two theses you put forward. One, to do something against Poland and to do nothing in Central America. I find that replete with contradictions, Senator.

Senator D'AMATO. Well, I see some inherent contradictions, Mr. Secretary, if I might be so bold, in some of the rhetroic that I hear taking place.

Well, then, let's stay on Poland.

Secretary HAIG. But be that as it may——

Senator D'AMATO. Now wait a minute, Mr. Secretary. I have listened to you.

Secretary HAIG. Well, I am grateful that you did. I think that is why I am here.

Senator D'AMATO. And I have supported your propositions and I have supported this committee and seen to it that the economic aid packages have gone substantially in the course that the administration has sought, and I want to continue that support.

Secretary HAIG. Well, that is very good, Senator.

Senator D'AMATO. But I am entitled to know and the American public is entitled to know what have we done and what have our allies done when you talk about sanctions in Poland and to the Russian people.

Secretary HAIG. Well, let's talk about it.

Senator D'AMATO. I think we sound like empty rhetoric.

Secretary HAIG. And maybe misinformed rhetoric. So let's talk about it.

Senator D'AMATO. Well, that is the way it is coming through.

Secretary HAIG. Let's talk about it. I think I have already mentioned in my opening statement and drew the differences between Western response to Poland and the earlier repressions that took place in Eastern Europe, and I think you will concede that this has been somewhat different and certainly history confirms it.

Second, we had——

Senator D'AMATO. Mr. Secretary, if I might on that point——

Secretary HAIG. Do you want to hear an answer? Are we after an answer?

Senator D'AMATO. What does a condemnation by Western Europe and our allies mean on the bottom line to the Russians? Will it deter them? Have we done anything in a meaningful way in terms of economic sanctions?

Secretary HAIG. Well, perhaps, Senator, since you have so many broad observations to make you can tell me what you have in mind.

Senator D'AMATO. I am suggesting that our allies, and I am suggesting that maybe one of the reasons Senator Stevens indicated his displeasure is that we have not seen our allies come together. They have not been able to pay that price for freedom that we have paid. They have not been willing to sacrifice their economic interests in that pipeline.

Secretary HAIG. Senator, I reject that, but I think you have an obligation if you have a will to be critical to state precisely what you believe we should be doing.

Senator D'AMATO. I am asking you. Do you believe that we have done enough in that area? Do you believe that our allies have done enough in that area?

Secretary HAIG. Do I believe they have done enough?

Senator D'AMATO. Yes.

Secretary HAIG. I don't believe any of us have done enough, but I do believe we have done a great deal better than your rhetoric would suggest, a great deal better, and I think it is very important that the American people understand that. And it isn't just condemnatory.

We have isolated Poland totally by collective allied action, except for the welfare and the humanitarian needs of the Polish people. That has placed the burden of Poland, for which we in the West bore billions of dollars of responsibility this past year, directly on the shoulders of the Soviet Union, and that is not a meaningless sanctionary action and my discussions with Soviet leaders confirm that in spades. It is extremely costly to them.

Now in addition to that, and I am being very patient and systematic because your level of rhetoric tends to be a little——

Senator D'AMATO. You have been known to have the same characteristics, Mr. Secretary. [Laughter.]

### EFFECTS OF SANCTIONS ON THE U.S.S.R.

Secretary HAIG. It must be my Irish background. But, seriously, the sanctions taken against the Soviet Union involve not only condemnation, not only direct attribution and responsibility, not only the successful outcome of the CSCE Conference where a united Western condemnation elicited great neutral and nonalined support, but it also involves the limitation of diplomatic activities throughout Western Europe, as well as in our own country and limitations in some instances in that each decision is made in each capital in accordance with the effectiveness and the impact. It has involved reductions in the number of contacts, scientific exchanges; in other words, a continuing isolation of the Soviet Union.

Now don't believe for a moment that the regime in Moscow is immune to the impact of international isolation. They need international legitimacy. It is vitally important to a regime which is experiencing centrifugal pressures and economic decline.

This past month in January, the first month of this year, the Soviet Union sold more gold than in any month in previous months of record, 60 tons versus some 200 for all of last year. Why? Cash problems. Now we are sending a delegation to Europe to discuss the subject of future credits, because, as Senator Johnston pointed out, we never got into that discussion, it is a far more meaningful aspect of policy.

For example, Senator, do you espouse a cutoff of grain, unilateral grain from the United States?

Senator D'AMATO. I didn't say that, Mr. Secretary. I am talking about the pipeline, Mr. Secretary, and I wouldn't suggest to you what you haven't said, and I think you do the dialog and the questioner a disservice when you try to impute that I would say cut off grain or we could even go one step further and take aggressive actions. That certainly isn't what I meant, Mr. Secretary.

What I do mean is that there is a widespread perception that the American public has, and certain Members of Congress, that our allies at many times during the course of dealing with the kinds of problems that we have outlined and discussed are not forthcoming in making the kind of sacrifice economically, et cetera, politically that would be acceptable.

Secretary HAIG. Senator, I would hope that you would sit down and look very carefully at what they have done versus what we have done by way of sacrifice.

Senator D'AMATO. That is the purpose in asking you.

Secretary HAIG. For example, the bookkeeping on the sanctions applied on December 30 by the United States suggests very clearly if implemented in extremes with retroactivity and extraterritoriality it would cost our Western European partners far more than it costs the Americans.

For example, the ultimate cost to the American's commercial interest is in the neighborhood of $200 million. In the case of Great Britain one contract alone, and compare their overall GNP to our own, is beyond $400 million. Perhaps that is something you didn't realize or hadn't thought about.

I think it is awfully important that what we do with respect to Poland involve sanctions against the Soviet Union and the Polish Government, the repression, not sanctions against our partners.

Now you talk about sacrifice. I don't know when you have been to Europe last.

Senator D'AMATO. Not as frequently as you.

Secretary **Haig**. No, when?

Senator **D'Amato**. October.

Secretary **Haig**. Well, I hope you got some indication of the gravity of the economic crisis taking place in all of the Western European capitals. Their unemployment levels far exceed our own. Their debt to GNP ratios are far more grevious. Their economic growth is slackening. It is more worrisome. And this for the first time has even hit Western Germany which has been since the Second War miraculously excluded from these downturns.

Now it is at times like this, Senator, that emotional rhetoric, accusations, and suspicions have got to be very carefully measured against fact. The great tendency in time of economic deprivation is for one to cast his exclusive stare at his own navel and to indulge in protectionism and the kinds of things that some of your remarks might suggest. Nothing could be more damaging to the vital interests of the American people and the values that you and I espouse.

Senator **D'Amato**. The Chairman is growing most impatient and maybe we can return to that when we come around again.

Secretary **Haig**. All right.

Senator **Kasten**. Senator Leahy.

Senator **Leahy**. Thank you, Mr. Chairman.

I assume that the Secretary is not saying that emotional rhetoric is an ethnic characteristic. Considering the dialog going on and the two people involved, as the only member of this committee who is half Irish and half Italian, I might feel a little bit nervous about that.

Secretary **Haig**. It will make you schizophrenic, Senator. [Laughter.]

### NATO CONTRIBUTIONS TOWARD DEFENSE

Senator **Leahy**. Let me just ask one quick question. As I recall during the Carter administration there was an agreement for NATO to commit itself to a 3-percent real growth in its contributions, and I believe you helped play a part in doing that.

Are they presently keeping up with that 3-percent real growth?

Secretary **Haig**. How are they doing on that?

Senator **Leahy**. Are they keeping up with it? Are they making a 3-percent real growth in their contributions today?

Secretary **Haig**. Well, I think some are and some are not. Those who are not are pretty well recognized as being unable to.

Senator **Leahy**. Which ones are?

Secretary **Haig**. Those that are are the important ones. West Germany, 3.4 last year; Great Britain, 4-something last year, despite their dreadful economic situation.

Senator **Leahy**. Are they projecting that same amount for this year?

Secretary **Haig**. I think West Germany is projecting it will meet its 3 percent.

Senator **Leahy**. What about Great Britain?

Secretary **Haig**. Great Britain I believe will, as well. France has done substantially better. They are in the neighborhood of, I think, a 19-percent increase overall in their defense budget last year, and they will be at about 4 to 5 percent.

Senator **Leahy**. I am just interested in NATO countries. What about Italy?

Secretary **Haig**. Italy will meet it.

Senator **Leahy**. Greece?

Secretary **Haig**. Greece will more than meet it.

Senator **Leahy**. Turkey?

Secretary **Haig**. Turkey will more than meet it but, unfortunately, it needs unusual levels of assistance to do so.

## HEARINGS ON CENTRAL AMERICA

Senator **Leahy**. As the chairman knows, I have requested formal hearings on El Salvador, and I realize that the Secretary is here to cover other subjects besides that, as he should. I would repeat that request and hope that this committee would have a full, in-depth hearing not only on El Salvador, but on all of Central America. Senator Specter and every other Senator who has been here today has mentioned that it is a matter of great concern to our constituents. I would like to see a hearing scheduled soon.

I have also asked the Intelligence Committee, on which I serve, to give to the American people a public report of the facts, not policy considerations, but the facts. We need something that they could do without divulging sources and methods. What we have now are the problems of periodic reports, obviously selected leaks, and, unfortunately, contradictory statements by members of the Cabinet in a way that makes it very difficult for any of us who have to make policy to determine just which one is giving us the most accurate information. It also makes it very hard for the American public to get behind whatever the policy might be.

So I would hope that we will have within this committee such a review before we talk about the substantial amounts of money that we are to appropriate.

Senator **Kasten**. If the Senator would yield on that point. We are scheduled on the 17th of this month to have a hearing on the Caribbean Basin Initiative, as you and I have discussed, and at that time we will have an opportunity to discuss some of these issues in depth.

Senator **Leahy**. That is a good way to celebrate St. Patrick's Day.

Senator **Kasten**. As you know also, I share your interest and concern about getting a complete briefing from the Central Intelligence Agency and also the Defense Intelligence Agency to determine what kind of information is available and hopefully between the two of us we can get that information, as well.

## NUCLEAR FREEZE RESOLUTIONS

Senator **Leahy**. I would also note just for the record that the nuclear arms control resolution introduced by Senator Kennedy and by the chairman of this committee, Mr. Hatfield, which I understand from your testimony, Mr. Secretary, that you oppose, does call for mutual verifiable reductions. It has always been my understanding, both from personal conversations with President Reagan and with the reading of his statements, that the President favors mutual verifiable reductions of these awesome weapons of destruction.

I might suggest that it is probably going to be very difficult to have reductions until you stop building them, and I would assume that this is the reason for the nuclear arms freeze.

In this Monday's Wall Street Journal there is an article on El Salvador. The Journal reporter writing from El Salvador, and I mention this because of your fiscal year 1983 request in the forthcoming Caribbean initiative, said: "Many here believe that the money is at best only a stopgap. At worst it could end up in Miami banks as did much of the estimated $1,000,000,000 that has slipped out of the country since 1979."

Now is that a justifiable risk to take with the taxpayers' dollars or is that some kind of new federalism on its way to Miami? [Laughter.]

Secretary **Haig**. Well, Senator, I haven't read the article. So you have me at a disadvantage, and I would like to analyze it carefully. I have great regard for that publication, but on occasions I have been less than enthusiastic about things they have written.

Senator **Leahy**. Do you want a copy?

Secretary **Haig**. Yes, but I hope you don't expect me to read, absorb, and read off the cuff on it. I like to think overnight about what I shoot at.

[Senator Leahy hands a copy of the article to Secretary Haig.]

Secretary **Haig**. Thank you very much, Senator.

Senator **Leahy**. Well, just let me ask a question. Insofar as a lot of the money that we are talking about for El Salvador will go to the private sector, do you see a problem that some of that may end up back in Miami banks as a lot of the money has flowed out of El Salvador? I think we both agree that an enormous amount of money has flowed out of El Salvador during the past couple of years.

Secretary **Haig**. Well, I am not sure that I have those figures to substantiate that an enormous amount of money has. I think any nation that is subjected to the risks that El Salvador is subjected to would find private capital flowing. Sometimes it flows for other reasons, like it is flowing out of Western Europe to get the benefit of the high American interest rates today.

Senator **Leahy**. Let's stick with El Salvador though.

Secretary **Haig**. The same influence would affect that.

Senator **Leahy**. You don't think there might be a little bit more of an initiative for a business person in El Salvador to get his money out of there than there might be for a business person in Stuttgart? One might be looking at an investment and one might be looking at his life.

Secretary **Haig**. It depends a great deal, but I think in an immediate sense, why, of course, there is great nervousness in Salvador today as there is in Honduras and Guatemala, and even more nervousness in the private sector at Nicaragua where they are being thrown into the slammer without due process and some languish there today by a repressive government. So they are nervous, too.

Unfortunately, their capital isn't flowing out because it is flowing in from the Soviet Union and Cuba and other advocates of their philosophy.

Senator **Leahy**. Mr. Secretary, if we could just stick to this particular issue. I have been extremely critical of what Cuba and the Soviet Union have been doing in Nicaragua and other parts of Central America. I yield to no one on that. What I am concerned about is we are going to be asked to pour a great deal of money into Central America at a time when a lot of our constituents are very concerned about a lot of other programs being cut, either it is in upstate New York, Vermont or California or Indiana or anywhere else.

My question to you is, first, I have been told by our intelligence community—something that is not considered all that secret—that an enormous amount of money has gone out of El Salvador into Miami banks and other areas, money as a hedge toward escape, if nothing else.

Do you feel that the money we are being asked to pour in there may be facing those same kinds of risks?

### EL SALVADOR INSURGENCY

Secretary **Haig**. Well, I can't assure you, Senator, that there wouldn't be some of that, but that is not the purpose of the economic assistance levels that we are proposing for El Salvador, but rather to continue on with the efforts that are underway to assist the development of that country.

Now I say again what I said at the outset. You can isolate one single factor against another factor. The fact that the insurgency has held at a very steady and worrisome level, that it is focused on the infrastructure of that Salvadoran society, the power grid, and the transportation. These are very worrisome aspects for any investment opportunity, either external investment from outside of El Salvador or internal investment.

We don't have the luxury because of these risks that you mentioned here, and that may be touched upon in this article, to wash our hands of it and let it go down the tube. Of course there are risks. There are risks in everything we do. There would be risks there even if there weren't an insurgency.

Here is a country that is trying to move from a feudalistic oligarchial system into a modern democracy and there are going to be growing pains and agonies. Because of that do we recoil from doing what we have to do and should do?

Senator **Leahy**. Is that insurgency being controlled completely out of Managua?

Secretary **Haig**. Largely; yes.

Senator **Leahy**. But not completely?

Secretary **Haig**. Largely.

Senator **Leahy**. The quote of the CIA Director in U.S. News & World Report in which he says it is being controlled completely out of Managua; is that a correct statement?

Secretary **Haig**. Well, you know, it depends on how legalistic you want to get. I would say when I use the term "largely" it is synonymous with his interpretation of the term "completely." The facts are that the essential command and control is emanating from Managua.

Senator LEAHY. Is the Director also right in saying that the Mig 23's in Cuba breaches the JFK/Khrushchev agreement to restrict offensive weapons from that island?

Secretary HAIG. Well, Senator, we haven't made what I would call an executive branch determination on that question. As you know, there are a number of so-called exchanges, formal, information, understandings, and modifications that took place in the early 1970's which could lead to a judgment that, yes, the spirit, if not the letter of the understandings, have been violated. Others might in a more legalistic sense or in a subjective sense, if you are on the Soviet side, suggest that, no, they meant offensive weapons to be nuclear weapons and, therefore, you could argue rather intensely and with justification that they are not violated.

We haven't made a determination. We are watching the situation very carefully. I think the point to bear in mind is the level of sophistication of the recent modernization enhancements in Cuba is extremely worrisome and cannot be viewed with complacency here in the United States.

Senator LEAHY. Thank you, Mr. Chairman.

I would assume by that then we can expect that if those are violations that the administration will be the first one to holler on that and let us know.

Secretary HAIG. Well, I would think so.

### NATO CONTRIBUTIONS

Senator KASTEN. Mr. Secretary, I was interested in your statement suggesting that Germany was, in fact, going to meet its 3-percent goal this year. I was at the Vercunda Conference a couple of months ago, and, frankly, the mood there was not as optimistic as your statement this morning. So maybe you have learned something in the last week or so.

It seems to me that we are going to have serious problems reaching that goal. Overall it is frustrating to a number of people on both sides of the aisle and in both Houses of Congress when we view the European situation, and particularly West Germany, in which they clearly are less than cooperative in a number of areas.

In addition, it is our defense dollars which are being used in West Germany. We then get an expert coming over here telling us that it is the deficit that is causing their economic problems. The deficit is caused in part by the United States spending money on defense not only in Europe, but also to protect their oil routes in the Indian Ocean and throughout the world.

So they can't have it both ways, and especially when they come over here and tell us that we have to balance our budget so that their economy can get under control, and then demand that we continue to make these huge military outlays in Europe. I think that is inconsistent.

### DEBT DEFAULT BY EUROPEAN COUNTRIES

I would like to talk for a moment about the debt question. You assume in your responses to Senator Johnston and others that a country going into default is similar to a person going through bankruptcy, and that if default were declared, the debt would in one way or the other be eliminated. That isn't clear from the law, and I can see that you are indicating that is not what you assume.

Specifically, I believe we should declare Poland in default, simply because it is the law. We are now using CCC payments to pay interest and some principal on a schedule. We paid $71 million in February, and we are now pledged for $876 million over the next few years on a month-by-month basis. We have the schedule.

As you know, we have 39 votes on the Senate floor on the issue of not using taxpayers' money to pay off those loans unless we declare default. That is what the law says. It seems to me that we should declare default. It seems to me that we ought to stop the reexports through General Electric and other companies that are going to supply the pipeline.

It seems to me that if we can't stop the pipeline, we can at least slow it up. It seems to me that if we can slow it up even for 12 or 18 months that it would exacerbate the Soviets' problem with hard currency you alluded to earlier.

I am not so concerned about 5 percent or 7 percent of the natural gas, but it is clear that that pipeline is going to provide the Soviets with hard currency, and that hard currency is going to be used to pay off the German banks, in particular, who are already overextended.

It seems to me that we can move in this direction. We can slow up or delay that pipeline. We should be able to put more pressure on American subsidiaries abroad, and we must.

I have been interested in the comments from the committee. We have had hearings on this question. We have had a member of Solidarity before this committee. We have had representatives of State, Agriculture, Treasury, and Defense before this committee. The evidence is overwhelming, in my view, that by declaring default, we can shut down the whole credit situation.

You were correct when you said we and our allies are no longer lending money to Poland. But France is lending money to the Soviet Union in order to finance the pipeline, and a number of our allies continue to lend money or credits to Soviet bloc countries. Those credits are not as long term as they once were, but they are still there.

By declaring Poland in default, we would force a reallocation of funds of the Soviet Union and the Eastern bloc countries to at least make that economy work. Thereby we would have the indirect result but the correct result, I believe, of, No. 1, making their hard currency problem worse; and, No. 2, making them recognize that if they continue to put such a huge proportion of their budget into their offensive military buildup, at the expense of their infrastructure, it will be at the expense of their economy.

Secretary HAIG. Well, Senator, I would like to first suggest that part of your comment might be misleading to someone who didn't really understand the problem on the CCC credits. We are not asking the taxpayers to do that.

These were guarantees. We had, unfortunately, to fill those guarantee requirements last year, and they have come up again this year. All it means is that that debt is transferred from certain private institutions to the Federal Government. We feel that that transferring fact doesn't mean that they are written off, and it doesn't mean that they are being subsidized. It means now that we have that responsibility as a government. It means, therefore, that the additional weight of the Government is substantial in demanding repayment, and that we will do so.

Now it is interesting also that many of the banks have yet to ask us to pick up the commitment. I think only one or two thus far have come in for application of the guarantee. So I think it is awfully important that that picture be clear.

Incidentally there is a congressional group that has just come back from Poland, and I understand has written a very detailed report which I would refer you and deals with this very subject.

Admittedly, this is an extremely controversial issue, and there are knowledgeable people on both sides of it, but the overwhelming weight of the experts of this Government in the Secretary of the Treasury's Office, our monetary experts, and that view is shared by the European Community in that context, the experts, is that at this junction we apply greater pressure on the cash flow crisis which the Soviet Union is experiencing now by maintaining a no-default posture and by insisting that the obligations be met.

Now it doesn't mean that if they are in default and are declared bankrupt that they don't have those obligations, because they do. Past history suggests that if in default, and I understand that probably only one nation has probably been in that status, doesn't change anything. What it does do is lessen the obligation and the sense of urgency to repay. It doesn't obliterate that. It cannot. Nations are like individuals, only more so, in the sense of their credit ratings.

Now with respect to the pipeline, the only aspect of your logic, which I think needs some clarification, is that this is not a cash flow problem in the contemporary sense for the Soviet Union. The estimated $10 billion of hard cash that they would realize from the completion of the pipeline will not be until 1985 or 1986, and it is not an insignificant aspect of the problem. We today are dealing with other aspects of that problem, about whether or not policies that we are talking about apply can indeed delay the pipeline. I think the Central Intelligence Agency's most current estimate is that probably not. It certainly cannot stop it, and the delays would be infinitesimal. Then you have to ask yourself does that delay justify the consequences in the context of Western unity that it would have.

My answer is that our judgment thus far is no. But the President hasn't made a decision on this question. We have Mr. Buckley going to Europe where he will discuss with the European leadership the subject of future credits and guarantees, and it is here that the real leverage is available to us. Why? Because it is true that Western taxpayers have been subsidizing Soviet economic development by offering credit terms well below market prices.

Now I don't include, incidentally, there West Germany. They do not. They offer their credits to the Soviet Union at market prices. They do not subsidize.

As a result, it might interest you to know, and a lot of members of this committee talked about West Germany being totally dependent on trade with the Soviet Union. Their trade with the Soviet Union over the last 5 years has declined from roughly 5 percent to 2 percent of their total trade, less than their trade with Switzerland and Austria. There is a lot of misinformation on the airwaves. Some of it comes, unfortunately, from our executive branch, and therefore I regret that.

Now you talked about the West German contributions. Before the Vercunda Conference everybody was worried about it, and I would think you would overcome that as a platform. When I participated in it over the years I considered it a very important platform generally as a voice of conscience from the conservative side of the West German political spectrum.

Before that meeting and at the time it was held, there were two major questions in doubt about West Germany. One was the host nation support agreements that involved a vast amount of German resources to support American reinforcing requirements, prestocking of equipment and reception facilities for reinforcing troops. Since then they have agreed. They haven't signed the agreement but they have agreed to it, and that is a substantial step forward.

Second, the question of infrastructure was in doubt at the time of that conference that you went to, and there was great pressure I think at that conference about it. Subsequently we have been advised that it will be resolved in the favor of West Germany's meeting its infrastructure commitments and obligations. So the situation has improved since you held those very important discussions in Vercunda.

Now I don't know what to say other than to suggest to you, Senator, that the more these questions of sanctions and the effect of sanctions are analyzed that sometimes the initial impressions fail to sustain themselves under careful analysis.

We have given default a very careful look, and at this particular juncture we think we apply more pressure on the Soviets by not calling Poland into default than to go the other way.

With respect to the pipeline, no decision has been made. We are going to look and see what progress can be made on future credits, both in terms of credit and rates of credit. I am optimistic that you are going to find that we achieve more by that careful coordinated and prudent approach than knee-jerk unilateralism.

Senator **Kasten**. Mr. Secretary, I hope you are right. We are all trying to get to the same goal.

I just want to make two points, and then yield to Senator Johnston for further questions.

### TANK CLAUSES ON RESCHEDULING OF POLISH DEBT

First of all, last April we met with our allies on the rescheduling of the Polish debt. We put together a package which included the so-called tank clause. Our allies agreed with us that under certain circumstances the Polish debt should be called into default. Those circumstances would be essentially the kind of an emergency situation that we have now in Poland. So our allies ought to have expected us to go forward.

The tank clause in fact has been invoked. Tanks haven't come across the border, but the situation of martial law qualifies. We had testimony from State, Treasury, and Defense that the circumstances under which the tank clause could be invoked have, in fact, occurred.

You are right, those are Government guaranteed loans, and it is CCC money. There is a lawsuit pending right now questioning the workings of the Commodity Credit Corporation. The law says that you can use those moneys, and they have been used, but in order to repay that, first, the loans have to be declared in default. We have not declared the loans in default, but yet those taxpayer guaranteed funds are, in fact, being used.

The last point I want to make is that I think you are correct that the West German lending is not at less than market rates for the most part, but it is important to point out the hard currency that West Germany is supplying to the Soviet Union and their needs for hard currency are significant.

I think we have got one question about the credits and the financing, but we have got another question about the problem that the Soviets have with hard currency. Clearly the money that is coming from the West German Government is helping to shore up the Soviet economy.

You know, honest people can disagree on these subjects, and I know that this is a subject of great discussion within the administration. I am pleased that you continue to say "at this time" we believe that default is not the answer. I would hope that you continue to reconsider this policy, and I can guarantee you that we in the Congress will continue to reconsider and work with this policy.

This committee is going to have before it some labor union leaders in the near future discussing the question of trade to the Soviet Union, and particularly our response to the Polish debt situation.

Senator Johnston.

## EL SALVADOR MILITARY ASSISTANCE

Senator JOHNSTON. Mr. Secretary, if we stop military aid to El Salvador who wins and why?

Secretary HAIG. Well, I would like to answer that by making two comments, Senator.

First, the situation in El Salvador is not as grim as some might suggest. I had a lengthy discussion with the Vice President of El Salvador last week. His estimate is that after the failure of the offensive last January the situation has leveled off and reduced itself to what I will call classic guerrilla tactics.

It is clear that over the last month or two the level of arms shipments going into El Salvador has dramatically increased. It has reached a high level somewhat similar to that that occurred just before last January's offensive.

Senator JOHNSTON. To the guerrillas you mean?

Secretary HAIG. Yes. Now it is clear that if we were to terminate our military assistance to a government which does receive assistance from elsewhere, but limited, it has gotten some help from Argentina and from some other Central American governments, Venezuela and others, it would be, I think, a fatal blow to the government's ability to sustain itself. Perhaps even the political-psychological consequences would be greater than the material ones because our level of assistance has not been that high in relative terms. I think it would be a tragedy.

Senator JOHNSTON. You are saying that the only thing standing between a guerrilla victory in El Salvador is American arms?

Secretary HAIG. No. I was really trying to say no, not necessarily. In practical terms the guerrillas are not about to overwhelm the country.

Senator JOHNSTON. But would they be but for the American arms?

Secretary HAIG. I think the American arms are a crucial aspect today even more importantly in political-psychological terms than purely material terms.

Senator JOHNSTON. What does that say for the level of support by the indigenous population in El Salvador for the Duarte regime?

Secretary HAIG. Well, that level of support is very strong, that is the level of support for a government which is not the guerrilla interest. The election coming up this month is probably going to answer your question for you with respect to Duarte, among other democratic and not-too-democratic possibilities.

We know that the church leaders, the trade union leaders, the peasant organizations, and the entrepreneurial class are violently opposed to the guerrilla movement and what it represents and supports the Duarte regime and the election process that will take place later this month.

Senator JOHNSTON. Thank you, Mr. Chairman.

Senator KASTEN. Mr. Secretary, it is roughly 5 minutes before 12, and we said we would try to allow you to leave here roughly at 12. What I would like to do, if I could, is to ask both Senator D'Amato and Senator Leahy to stay roughly within the 5 minutes, and that will mean that you will be leaving at 5 minutes after 12. If that meets your schedule, we will go along with that.

Secretary HAIG. I do have a very tight schedule.

Senator LEAHY. I assume, Mr. Chairman, that we can then submit questions for the record afterwards?

Senator KASTEN. Absolutely.

## MILITARY SALES TO JORDAN

Senator D'Amato.

Senator D'AMATO. Mr. Secretary, one of the things that I am concerned about was the so-called leak in terms of the proposed sale and then there were some comments followed up by an interview with officials in Jordan and the Secretary of Defense in regard to the sale of F-16's and mobile missile launchers.

It would appear that those F-16's and the mobile missible systems really have to be viewed as being a threat to Israel by the Israelis and that consequently we may create a perception on the part of the Israeli Government that may bring about a reaction to various situations, given the tense and dangerous situation that exists in Lebanon, that their restraint might be less than ordinary or traditional, that indeed it may bring about what they might characterize as a preemptive strike, and indeed we may even be occasioning certain of the more militant Arab States to believe that our commitment to Israel is less than what it is and has been traditionally, and thereby facilitate their taking risks and actions that otherwise they might not take.

So for those reasons I have a very real concern that even a discussion of the introduction of these kinds of weapons systems may be totally counterproductive to what I have perceived to be a Herculean effort on your part to calm down and to bring the Camp David Accords with all the difficulties attendant to fruition, to calm down that situation and indeed even again that perception may be a fatal blow to our efforts at normalization in that area of the world.

Secretary HAIG. Well, I think, Senator, your question is very well taken. I make no bones about being concerned about the press play of the F-16 Eyehawk question, and I think Secretary Weinberger has commented along similar lines. I think the main thing to bear in mind at times like this is that the facts have to be stated and reiterated as matter of factly as we can, and that is that there has been no specific request, and above all there has been no decision. Such a decision would involve an internal debate in the executive branch in which all the well taken concerns that you have expressed would be given very heavy weight, especially by me, and then there would necessarily be consultation with the Congress.

So I think we just want to be careful. I made a joke the other day, Senator. You talk about new federalism, and I said I am preparing legislation which will transfer responsibility for foreign policy to our State governments and that way we can reduce the voices of American foreign policy at least in half. So, no, I think we have to be extremely careful here.

Senator LEAHY. Our Governor thinks you already have, Mr. Secretary. [Laughter.]

Secretary HAIG. We have to be careful, and this is a difficult question. But, on the other hand, I think it is also important, and I have reminded our friends in Israel of this, that we certainly can draw no less concern, in fact more concern, when our regimes are armed and equipped by the Soviet Union with the Soviet presence and with even the level of sophistication that in a particular system might exceed what the United States would be willing to provide.

So it is not just a question that is black and white. It is replete with tradeoffs of risks not only to the United States but to our traditional responsibilities to which there have been no change in this administration with respect to the future security and viability of Israel.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator KASTEN. Senator Leahy.

### THE SITUATION IN EL SALVADOR

Senator LEAHY. Thank you, Mr. Chairman.

I will submit other questions for the record, but I would just like to follow up on El Salvador again. I have roundly and strongly condemned the actions of the guerrillas in killing unarmed combatants, and I have done so to their face. I have also roundly and strongly condemned and criticized the killing of unarmed combatants by members of the Government, and I have done that to their face, I think to the surprise of General Garcia who apparently had never been spoken to that way.

I am very concerned, Mr. Secretary, that we are presently supporting a government which has been involved in terror and murder and torture of unarmed people, of noncombatants, and that they have done so on many occasions with American arms and with American equipment. I question just how long such a government or such support by us can exist, and how long before their credibility and our credibility wear thin.

So I would ask just two or three questions that can be answered I think rather briefly.

### ELECTIONS IN EL SALVADOR

Do you feel that there will be elections this month on the 28th in El Salvador?

Secretary HAIG. Yes, I do.

Senator LEAHY. If Mr. D'Aubisson and his Arena party win the election to the constituent assembly, what would be the U.S. policy at that time?

Secretary HAIG. Well, I think it is too early to say. I would make an observation that the outcome of the election, whatever it is, will involve an assessment of the credibility of that election, as well. Is it a representative expression of the will of the people?

Senator LEAHY. Or a will of those of the people who had candidates who were involved in the election or who were allowed to run.

Secretary HAIG. Of course, all of that would go into it. I have made the point that the election, whatever its outcome, is not going to solve the problems of El Salvador.

Incidentally, I want to join you in expressing equal concern about excesses when they come from the right as the concern I expressed when they come from the left. I think any excesses are unacceptable and the American policy is to express our concern for that.

Perhaps the difference is, and this was the point I was making earlier, is that we know that the left is directed and represents interests which are not only illegal and wrong in the sense of extremism, as is the right when it engages in it, but that it is also a matter of vital interest to the United States because it is the implementation of a strategy that is alien and a threat to our interests, to say nothing of those local observations you make.

So I can't say. First, I don't know what the outcome would be, and I think you know that we have to be extremely careful in the executive branch as we should be in the Congress not to intervene except indirectly and quietly in events which could have a public consequence through an election which we hope will be as free as possible and the results which we hope will be as reflective of the will of the people of El Salvador as possible.

Senator LEAHY. It may be I want to see too much of a reflection because there are people who are, for one reason or another, either through fear or other reasons, blocked from running in that election. Do you feel that you could tell us today whether you would recommend a continuation of military aid to a D'Aubisson government?

Secretary HAIG. Well, I again think it is too early to say, Senator.

Senator LEAHY. That is a fair answer.

There have been a number of calls of varying levels within the Congress, for whatever government we have on the 29th of March, that that government enter into negotiations with the guerrilla forces. You may have referenced that already today. Do you anticipate the United States down the road encouraging such negotiations?

Secretary HAIG. As I say, we have supported them in the context of a plebiscite, self-determination. I think we would continue to be strong advocates of negotiations which would lead following the constituent assembly election to an early as possible Presidential election, and we would hope that all of the internal elements in El Salvador would have an ample opportunity to participate, and the negotiation of conditions to guarantee that kind of participation with security and a reduction in violence is something that we would be very much in favor of, as we have been.

Senator LEAHY. Would you accept that some of the people supporting the guerrillas in El Salvador do so because of their own nationalistic feelings than out of control from the Soviet Union or any other outside group?

Secretary HAIG. Absolutely. No question about it. It is a multifaceted movement. There are some genuine democratic elements. After all, Mr. Ungo was a political partner of President Duarte, a social democrat.

The real problem is that both our analysis and history confirm that it is the hard core armed professionally trained guerrilla who will ultimately take over if all things remain equal. Therefore, what we have to do is get the external involvement out, get this external professional running of the operation terminated, and leave the events of El Salvador to the people of El Salvador.

If they choose a leftist extremist government, we would have no basis for complaining here. We might be concerned. If they chose a rightest repressionist, we would regret that greatly. In either case, our future policies would be affected with respect to them, but I don't think we would have the kind of an obligation that our continuing support for the democratic process in El Salvador today requires.

Senator LEAHY. Of course, we are safe to say in the meantime we will do our darndest to try to convince them of just which way they should go, either through economic military aid or other means.

Secretary HAIG. Yes.

Senator LEAHY. Thank you.

Senator KASTEN. Mr. Secretary, thank you for your testimony this morning. I know I speak on behalf of the subcommittee when I say we look forward to working closely with you again this year.

## SUBMITTED QUESTIONS

The record for our hearing will be open for 3 weeks, and we will ask you to respond to questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### EL SALVADOR: ADMINISTRATION POLICY

Senator Kasten: Mr. Secretary, as I mentioned in my opening remarks, the Administration's policies towards El Salvador are receiving very little support from the American people or from our allies. In fact, France has announced support for those forces which we oppose. It is an understatement to say that we need a clarified indication of exactly what our interests are, clear and uncontrovertible evidence of interference from Cuba, the Soviet Union and Nicaragua made public, and a clearer understanding of how far this Administration is willing to go to ensure the success of its policies, and in what form that policy may take in the future.

Secretary Haig: Our interests in El Salvador and the Caribbean Basin as a whole are enormous, the threat is ominous, the need for effective action is compelling. For most of our history, the United States has faced no fundamental threat in this region. The Soviets and Cubans have launched a concerted effort to bring countries in Central America under their influence. We have made public information documenting this effort.

We recognize that the problems of the region are not due simply to Soviet-supported Cuban and Nicaraguan subversion. There are legitimate and serious social, economic, and political concerns which must be addressed even as we move to oppose attempts to shift the geo-political balance against the United States. U. S. policy is designed to address the economic, political, and security problems of the area. The Caribbean Basin Initiative provides substantial new opportunities for increased trade, investment, and economic assistance to help with central economic needs. We support free elections and broadly based democratic institutions where each country can pursue its interests in accordance with the wishes of the people as the best way to counter communist inroads in Central America and the Caribbean. Through collective security efforts and security assistance, we are helping democratically oriented governments to resist violent revolutionaries while pursuing the economic and social reforms demanded by the people.

The United States is prepared to do whatever is necessary and prudent to assist the countries of the region in achieving these goals now, and in the future.

### EL SALVADOR: WEAPONS CARRIED BY U. S. PERSONNEL

Senator Kasten: What is the current status of the restrictions governing the carrying of arms by United States advisors in El Salvador?

Secretary Haig: U. S. military training personnel in El Salvador are currently authorized to carry only sidearms in the field. They are authorized to use these weapons only in their

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own defense or in the defense of other Americans.

## POLISH DEFAULT AND THE SIBERIAN PIPELINE

Senator Kasten: Mr. Secretary, there are many who believe, and reportedly Defense Secretary Weinberger is one of these, that one of the most important things the United States could do vis-a-vis our relationship with the Soviet Union is to force cancellation of the natural gas pipeline, and that the easiest way to do this is to declare default on Poland's debts, which would have the necessary ripple effect, forcing cancellation, or at least substantially delaying the pipeline. What is your view of this?

Secretary Haig: The European governments are providing official guarantees for the private financing of exports related to the pipeline, and these credits would probably not be affected by a Polish default. The Reagan Administration has consistently expressed concern about the pipeline which we believe will push the Western Europeans over the threshold of prudent energy dependence and which will also provide Moscow with a significant amount of hard-currency earnings. The allies continue to regard the pipeline as vital to their economic prosperity, both in providing exports of equipment and material to build the pipeline (thus providing needed jobs) and in assuring their energy supply in the late 1980's and beyond. I also do not believe that the U.S. could, in a meaningful way, slow down the pipeline. Moreover, the cost of trying to do so in terms of mutual confidence and allied unity would be substantial.

## DISBURSEMENT OF ESF CREDITS TO ISRAEL

Senator Kasten: Mr. Secretary, it was only because of incredible cooperation on a bipartisan basis--House and Senate, and Congress and Administration--that we were able to pass a Foreign Assistance Appropriations Bill for fiscal year 1982. In the Conference Report was a directive agreed to by all of the conferees--which report was subsequently agreed to in both the Senate and the House--to the Department of State that the ESF funds for Israel should be disbursed within thirty days of enactment of that legislation.

The State Department has ignored that directive, and Mr. Secretary, frankly unless the State Department reverses this decision, I feel the bipartisan coalition we were able to build last year will fall apart and the chances for your fiscal year 1983 program succeeding will be nil.

Can we get assurances from you that you will comply with the directive as soon as possible?

Secretary Haig: As we have noted in several letters to Senators and Congressmen, the conference committee recommendation for total disbursement within thirty days of the signing of the appropriations bill was taken fully into account in our deliberations concerning the disbursement schedule for Israel's ESF. We also took into account the fact that compromises had been hammered out in order to pass the legislation.

We would never lightly go against the wishes of the conferees, but we believed we had no real choice. Policy guidelines decided by the President in response to Israel's action on the Golan only a day or two prior to the Congressional recess, among other reasons, required that we treat elements of our relationship with Israel exactly as we had previously, no more and no less. Therefore, we decided to adhere to the disbursement schedule of the past two years, which is extremely favorable to Israel. As you know, half of Israel's ESF was disbursed December 31. Half of the remaining $403 million was disbursed on March 31 and the remainder will be disbursed in time for the fourth quarter of FY 1982. This disbursement schedule places Israel in a very favorable position.

## FMS CREDITS FOR ISRAEL

Senator Kasten: Mr. Secretary, many of us up here believe that the proper response to Israel vis-a-vis the AWACS' sale is an increase in direct credits under the FMS program.

Not only hasn't the Administration decided to take this course, but it is recommending a $50 million reduction in the direct loan program from this year's level.

Why the reduction?

Secretary Haig: We have increased our request for FMS credits to Israel by $300 million--from $1.4 to $1.7 billion. The additional FMS credit of $300 million was considered many months ago in connection with the F-15 enhancement sale to Saudi Arabia and our broad commitment to Israel's continued technological advantage in the region. We remain convinced AWACS would not pose a threat to Israel's security. We would expect that Israel would use a significant portion of the FMS increase to acquire additional fighter aircraft.

With respect to the portion of the $1.7 billion to be provided as a direct credit I would note that Israel will get nearly 30 percent of all FMS concessional credits. With an eye to budgetary stringency and given the number of other FMS recipients with economic circumstances far more grave than that of Israel we believe $500 million is an appropriate level consistent with the Administration's overall proposal for concessional credits and its fiscal year 1982 proposals.

Senator Kasten: Given Israel's current economic picture, how are we helping her by providing $300 million in loans rather than credits?

Secretary Haig: As noted above the additional credits, whatever the terms, will facilitate Israeli purchase of additional fighter aircraft.

With respect to Israeli ability to repay additional credits, while Israel's total external debt at the end of 1981 appears high at an estimated $18 billion, much of the debt is long term. FMS repayment is 30 years, including 10 years grace on principal repayment. With consistent application of policies designed to encourage exports and restrain domestic demand, Israel should continue to be able to service its debt without undue reliance on commercial borrowing or drawdowns of reserves.

## AID INCREASES/DOMESTIC CUTS

Senator Kasten: Mr. Secretary, the Administration's request for new budget authority for the foreign assistance program is nearly $1.4 billion more than appropriated for the current fiscal year--an 18 percent increase. This comes at a time when we are being asked to cut back domestic programs across the board. How do you justify such a large increase in foreign aid, especially given the tight budgetary situation?

Secretary Haig: Today, the Soviets and their proxies are threatening our most vital strategic interests. We must, and the President has made clear we will, take whatever steps are necessary to guard the peace, defend American interests and not allow allied and friendly nations to fall to outside aggressors.

To achieve these goals requires resources not only to build a military force second to none but also the foreign assistance resources to aid developing nations that are the key to our strategic and economic well-being.

Without adequate foreign assistance we risk the loss of military facilities essential to our defense, setbacks to our peacemaking efforts in the Middle East, and court the danger of growing subversion to nations such as the Sudan, Yemen, Pakistan, Morocco, Somalia, and Oman, which are under growing pressure from Libya and other Soviet client states.

I am well aware of the difficulties associated with appropriating additional foreign aid when we are being asked to tighten our belts at home. Unfortunately, the Soviets have challenged us at this time. Our most vital interests are under attack. The foreign assistance program proposed for FY 1983 has been specifically designed to assure the defense of those interests.

## RELATIONS WITH PAPANDREOU GOVERNMENT

Senator Kasten: Mr. Secretary, the recent elections in Greece brought that country under the control of a socialist government. How do you see that fact affecting U. S. relations with Greece?

Secretary Haig: The U. S. wants to have the best possible relations with the Papandreou government. Successive Greek and American governments have concluded that a close bilateral relationship is in the national interest of both countries, and we intend to continue doing what we can to foster a constructive and mutually beneficial relationship with Greece. American ties with Greece are of long duration and include bonds of kinship and commitment to the same values. Our relationship with the Greek government is positive, and we have indicated our readiness to resume negotiations on a new defense cooperation agreement when the Papandreou government is prepared to do so.

Senator Kasten: How do you see the election of the Papandreou government affecting NATO, and more specifically, NATO's southern flank?

Secretary Haig: Greece continues to participate fully in NATO activities and to play its role in the defense of NATO's southern flank. Greece is a valued member of NATO and an important partner in maintaining the stability of the strategically vital eastern Mediterranean.

Senator Kasten: How do you see the election of the Papandreou government affecting Greece's relationship with Turkey?

Secretary Haig: Tension did increase between Greece and Turkey during the winter. It was focussed on questions of airspace, territorial waters, and continental shelf. The U. S. strongly believes it is very important for both the NATO Alliance and stability in the eastern Mediterranean that there be good relations between Greece and Turkey. For geographic and strategic reasons, the security of both Greece and Turkey is enhanced by their partnership. We continue to urge both nations to exercise restraint and to work to achieve the best possible relationship, a goal we believe is in both countries' national interest.

## EXPORT-IMPORT BANK

Senator Kasten: Mr. Secretary, what is your view of the ongoing retrenchment of the Export-Import Bank?

Secretary Haig: We believe that the retrenchment at Export-Import Bank can be accomplished while continuing to assure that U. S. exporters are not put at a disadvantage by officially-supported foreign competition. By carefully targeting its resources on the competitive cases where financing may be a deciding factor, the Export-Import Bank can assure the international competitiveness of U. S. firms and can also help to persuade other countries to cooperate in our efforts in the OECD to negotiate an end to the use of subsidized export financing.

## DECREASED UNICEF FUNDING

Senator Kasten: Mr. Secretary, rightly or wrongly, UNICEF enjoys a solid reputation as an effective U.N. organization, and enjoys wide popularity in the United States. This Administration is recommending that we cut back from this year's funding level--in fact, it is recommending that we cut back to a level which is only $1 million more than was appropriated in fiscal year 1978.

Since we are talking about a relatively small amount of money--especially considering the huge increases in the military assistance programs, don't you believe it does great harm to this Administration's image? Wouldn't it appear that we are cutting back on assistance to starving children, while at the same time providing for increases in military aid?

Secretary Haig: The Administration's request for a contribution to UNICEF must be considered in the context of the Administration's total request for voluntary contributions to international organizations and programs. The Administration is requesting $173 million for all U. S. voluntary contributions (International Organizations and Programs account) to the United Nations and the Organization of American States in FY 1983. This decrease of $16 million from the FY 1982 request ($42 million from the FY 1982 appropriations level) for the account through which UNICEF is funded reflects the Administration's recognition of the need for budgetary restraint in order to improve the national economy. Reducing the total also has forced a decrease in the amount of our request for a U. S. contribution to UNICEF, which remains one of the largest programs in the account.

Even at the reduced level of $26 million, we believe our contribution for UNICEF, when coupled with the strength of our past support for its programs, should still be sufficient to assure a continued leadership role for this country in the organization.

The request we are making seeks to strike a balance between continued strong U. S. support for UNICEF and the current domestic budgetary stringencies; in no way should our decreased contribution be interpreted as an indication that we no longer remain a staunch supporter of UNICEF. Our belief is as firm as ever that UNICEF serves important U. S. political, economic, and humanitarian interests in the developing world by acting as a catalyst for programs which truly help mothers and children. I am confident that our $26 million proposed contribution will greatly aid UNICEF in its efforts to reduce infant mortality, improve child development through primary education and through helping mothers to care better for their children in some 111 nations.

## DIRECTION OF MUBARAK'S POLICIES

Senator Kasten: Mr. Secretary, can you give us a sense of what direction the Mubarak government is going, both with respect to Egypt's relationship with other Arab countries and to the Camp David peace agreement?

Secretary Haig: We have every confidence in President

Mubarak's continued commitment to the Camp David peace process and his declaration that any improvement in relations with other Arab states will not come at the expense of that commitment or of Egypt's relations with Israel. Mubarak has said that he will not criticize other Arab governments or leaders regardless of what they say about Egypt and that he would welcome improved relations with many of the states of the Arab world, but only so long as they recognize the fundamentals of Egyptian policy.

## ROLES OF BUCKLEY AND MCPHERSON

Senator Kasten: Mr. Secretary, I wonder if you could help clarify the roles Under Secretary Buckley and A.I.D. Administrator McPherson play via-a-vis overall coordination of the foreign assistance program.

Secretary Haig: As you know, under various sections of the Foreign Assistance Act, including section 622, I am responsible for providing policy guidance, general direction and continuous supervision for all U.S. assistance programs. I have asked Under Secretary Buckley to coordinate the allocation of all types of foreign assistance in which the Department of State is involved, and to assure that our assistance programs reflect the foreign policy objectives of this Administration. A.I.D. Administrator McPherson is responsible for budget and policy of our economic development assistance programs and reports directly to me. Mr. Buckley and Mr. McPherson work together closely to assure that all of our foreign assistance programs work to achieve the President's foreign policy objectives.

## SOVIET PRESENCE IN SOUTHEAST ASIA

Senator Kasten: Mr. Secretary, could you review for us Soviet ambitions in Southeast Asia, citing in particular the significant buildup of Soviet forces in the Pacific Basin and the level of economic and military support the Soviet Union is supplying to Vietnam?

Secretary Haig: The most significant Soviet advance in the Far East since 1978 has been in Indochina. The Soviet presence and Soviet influence have increased significantly as Sino-Vietnamese relations deteriorated and Vietnam isolated itself regionally and internationally through its invasion and occupation of Kampuchea. The most tangible benefit to Moscow is the significant expansion of Soviet access to Vietnamese air and naval facilities. Since early 1979 Soviet air and sea units have had continuous access to Cam Ranh Bay, which has facilities for limited repair and service of Soviet ships. Thus, the USSR can more easily maintain a varied naval presence in the South China Sea, in the sea lanes between the Pacific and Indian Oceans, and to a lesser extent in the Indian Ocean. The range, duration, and responsiveness of Soviet air reconnaissance patrols in Southeast Asia have improved substantially.

The Soviet position in Indochina is buttressed by massive military and economic aid to Vietnam, substantial economic assistance to Kampuchea and Laos, and by the presence of an increasing number of Soviet advisors and technicians. Since early 1979 the Soviet Union has delivered to Vietnam military hardware estimated to be worth more than $2 billion. In addition, the USSR has provided logistical support and training, and has helped the Vietnamese and Lao develop a chemical warfare capability. Soviet economic aid figures are not published, but must be estimated on the basis of trade surpluses, probable grant commitments, the value of the work of Soviet technicians, the cost of training for Vietnamese, and the value of subsidized prices for Soviet-supplied imports. Total Soviet non-military economic aid to Vietnam is estimated at something over $1 billion per year, and 1981 agreements suggest that it may grow over the next few years.

## READINESS OF THAI ARMED FORCES

Senator Kasten: What is the state of Thai military readiness? How does Thai military equipment and training compare to that of the 200,000 Soviet-supplied Vietnamese troops in neighboring Cambodia?

Secretary Haig: Thailand faces a serious conventional military threat from Soviet-supplied Vietnamese forces in occupied Kampuchea, underscoring the urgent need to modernize its armed forces. The Thai army and marines are generally effective combat forces, and have handled themselves well in promptly defending against Vietnamese border incursions. However, in general the Thai have been equipped, organized, trained and deployed for counterinsurgency and civic action missions. Thus, they are at a relative disadvantage in defending against a large-scale conventional strike by the better equipped, more combat experienced Vietnamese on their eastern border.

It is in the U. S. interest to assist Thailand, a treaty ally, to strengthen conventional forces and improve readiness. These are important goals of our military assistance and advisory programs.

## ECONOMIC PROBLEMS IN THAILAND

Senator Kasten: Could you review for us the serious economic problems which have faced the Thai in recent years and have inhibited their ability to move ahead with their necessary force modernization? Please give special attention to the impact of high oil prices and the costs of assisting hundreds of thousands of displaced persons from Cambodia, Laos, and Vietnam who are residing within Thai borders.

Secretary Haig: Thailand has experienced steadily widening trade and payments deficits since 1975, caused by increased energy costs and lower prices for exports of rice, rubber, and sugar. The total foreign debt rose by more than $1.5 billion in 1981 alone. Foreign debt was estimated at $7.5 billion as of the end of 1981, a sharp rise from negligible levels in 1973.

About 40 percent of this debt consists of Royal Thai Government obligations and the balance is private.

However, international contributions have paid most of the costs generated by the influx of about one million refugees from Indochina since 1975. Thus Thailand's available resources for its forces modernization program have been impaired by its foreign debt problems, though not by refugee needs. The high cost of foreign capital is probably the most severe problem, including the high interest rates associated with FMS guaranteed credits.

### EXTENDED REPAYMENT TERMS FOR THAILAND

Senator Kasten: In light of the Soviet commitment to Vietnam, could our security assistance effort to the Thai be more responsive to their urgent economic and military needs by granting extended repayment terms? If so, how could U. S. goals and interests in this region be enhanced?

Secretary Haig: Assisting in the modernization of the Thai armed forces while at the same time facilitating sustained economic growth are essential goals of our Southeast Asian security policy. Extended FMS repayment terms for Thailand would help to some extent in achieving these goals. However, this would require specific legislative authorization for Thailand. For FY 1983 we are requesting a total of $91 million in foreign military sales credits for Thailand, of which $50 million would be in direct credits at concessional terms. We are also requesting $10 million in grant economic supporting funds and $2.2 million for grant military education and training. We believe that this request will be effective in meeting Thailand's urgent force modernization requirement, without endangering the economic growth which is so essential to the stability of the country.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### SECTION 506(a) REPAYMENT

Senator Inouye: Mr. Secretary, in fiscal year 1981, the President used his authority under Section 506 (a) of the Foreign Assistance Act to provide $25 million in emergency military assistance to El Salvador. In fiscal year 1982, he again used this authority to provide $55 million in emergency assistance to El Salvador.

The fiscal year 1983 budget appendix shows a request, under Military Assistance, for only $20 million to reimburse military departments for stocks drawn down and services provided under Section 506 (a).

When will the Administration seek appropriations for the remaining $60 million?

Secretary Haig: In fiscal year 1981 President Reagan used his authority under section 506 (a) to provide $20 million in emergency military assistance to El Salvador, which as you point out is in the fiscal year 1983 budget request. The other $5 million was FMS reprogramming and not a Section 506 (a) drawdown. We are planning to submit our request for the $55 million provided in fiscal year 1982 in the fiscal year 1984 budget proposal as the fiscal year 1983 budget request had already been prepared when the drawdown was made.

Senator Inouye: The Administration intends to request a $60 million supplemental for fiscal year 1982 military assistance. Is that correct?

Secretary Haig: We are proposing that the levels of security assistance appropriated be increased to the levels authorized. This requested supplemental would include $62.0 million in military assistance (MAP) funds, $50 million in forgiven FMS, $3.5 million in IMET, and $186 million in FMS credits through the Federal Financing Bank.

Senator Inouye: Will any part of the supplemental be allocated for reimbursement of expenditures under Section 506(a)?

Secretary Haig: We do not plan to use any portion of the supplemental as reimbursement under Section 506(a).

Senator Inouye: When the Administration delays requests for replenishment of stocks provided under Section 506, some people think the Defense Department is subsidizing foreign assistance. Would you agree?

Secretary Haig: There is no delay. We seek to reimburse in the fiscal year following the one in which the drawdown is made.

## U.S. ECONOMIC AND MILITARY ASSISTANCE TO EL SALVADOR

Senator Inouye: Mr. Secretary, in our hearing last year on fiscal year 1982 foreign assistance, you rather confidently made the assertion that "the ratio between economic assistance that has been provided, that is developmental assistance, to El Salvador versus military assistance has been 3 to 1. And we intend to keep that general ratio."

However, a table of U.S. economic and military assistance, which I had prepared earlier this week, shows that the ratio for fiscal year 1982 is now less than 2 to 1.

In view of your earlier assertion, does this not reveal an increasingly disproportionate military involvement?

Secretary Haig: As you know, we initially requested $104.5 million in economic assistance for El Salvador for FY 1982 and $175 million in FMS and IMET, a ratio of nearly 7 to 1. As the security situation grew grimmer, we reprogrammed $8.5 million in MAP and used Section 506 authority to add $55 million, bringing the total to $81 million.

The economic situation is even grimmer. If the Caribbean Basin Initiative Supplemental is approved by the Congress, our economic assistance will rise to $232.5 million and the ratio of U.S. economic to military aid in El Salvador would be 3 to 1. We have also asked for a Security Assistance Supplemental which, if approved, would add $35 million of MAP grant to El Salvador and would reduce the ratio.

It is of critical importance to realize that the foreign-supported Marxist insurgents have intensified throughout the year their efforts to take by force what they cannot win in free and open elections. The Salvadoran armed forces must be adequately prepared to deal with this challenge to El Salvador's security, guarantee the people's right to choose their own future, and ensure that the important economic, social and political reforms go forward. The supplemental request for MAP grant is designed to meet the immediate materiel and training needs of the Salvadoran armed forces in the critical months ahead.

The economy cannot function if the security situation collapses, nor would a successful containment of the security situation be meaningful if the economy lies in ruins. We are attempting to address both problems.

Senator Inouye: What additional amounts of economic assistance will be proposed for fiscal year 1982?

Secretary Haig: We expect to allocate $128 million to El Salvador from the $350 million in Economic Support Funds requested in the Caribbean Basin Initiative Supplemental.

Senator Inouye: How much of the proposed FY 182 military assistance supplemental will be allocated to El Salvador?

Secretary Haig: We would utilize $35 million in El Salvador from the Security Assistance Supplemental we have requested.

## EL SALVADOR: Major D'Aubuisson

Senator Inouye: Mr. Secretary, more than a year has passed since the Committee had its classified briefing on El Salvador. I had understood at that time that a Roberto D'Aubuisson, who had been expelled from the United States for violation of our immigration laws and was also wanted by Salvadoran authorities for his alleged criminal activities in that country, was nowhere to be found.

Now, I find that this cashiered army officer is a leading political candidate in El Salvador.

How has this situation come about, can you tell me?

Secretary Haig: Ambassador Hinton has met with Major D'Aubuisson on several occasions since D'Aubuisson became the leader of the National Republican Alliance Party (ARENA) and entered the electoral campaign for seats in the constituent assembly. Ambassador Hinton met with D'Aubuisson in the course of his normal diplomatic duties; he has met with leaders of all the political parties that participated in the recent elections.

D'Aubuisson's party, ARENA, won 19% of the votes in the March 28 election, second only to the Christian Democrats. It is, therefore, a major political faction in El Salvador. All parties that participated in the March 28 election, including ARENA, renounced violence and pledged to pursue their political ends through the democratic process.

Senator Inouye: Does the State Department have evidence linking D'Aubuisson to the murder of Archbishop Romero in March 1980?

Secretary Haig: D'Aubuisson was arrested by the Salvadoran military in May 1980, probably because he was suspected of plotting a coup. He was released shortly thereafter. We do not know if he was arrested on the basis of a warrant issued by a Salvadoran judge and, if so, what the specific charge was. We assume that both the decision to arrest him and the decision to release him were made by the revolutionary junta. We are not aware of any current warrant for his arrest.

There have been allegations linking D'Aubuisson to the death of Archbishop Romero, however, information is limited and incomplete. No conclusions can be drawn from available data.

Senator Inouye: It seems to me that the United States has a substantial stake in President Duarte's success at the polls. How would you respond if D'Aubuisson and the National Republican Alliance were to win the election? Would you propose a suspension or termination of U.S. assistance?

Secretary Haig: Our attitude toward the government that emerges from the recent election will depend on its policies. We anticipate that the new government will continue to carry out political reforms, implement the land reform program, and work to eliminate violence from the extreme left and extreme right. And that we can, therefore, continue to give it our support.

Senator Inouye: Could the coming election portend the long-awaited coup from the right?

Secretary Haig: The election clearly does not portend a coup--on the contrary, it represents an historic opportunity for the Salvadoran people to decide their own political future, and I am confident that their wishes will be respected.

## CONGRESSIONAL PRESENTATION DOCUMENT

Senator Inouye: Mr. Secretary, to return to an earlier question, when can the Committee expect to receive the Congressional Presentation Documents for the Fiscal Year 1983 Security Assistance programs?

Secretary Haig: We fully expect to submit the CPD to the Congress during the week of April 12. As you know, your staff has been provided an advance text.

Senator Inouye: How do you explain the delay in preparation?

Secretary Haig: The Administration has been careful in taking the needed time to weigh the merits of each country program and to insure that full justification has been established. In the course of the review, it found that certain adjustments were necessary in a few programs, which regrettably meant that our timetable for submission would be pushed back. This fine-tuning process has now been completed and the materials have gone to the printers. We have provided an advance text to your Committee staff.

Senator Inouye: Have they been held up by OMB?

Secretary Haig: It would not be fair to say that any one government agency has held up the CPD. The Administration as a whole has been careful to assess the criticality of each program. This process has taken a considerable amount of time.

Senator Inouye: Are they being reviewed by the Department of Defense?

Secretary Haig: The Congressional Presentation Documents each year are fully coordinated and reviewed with the Department of Defense. As I noted earlier, this process has been completed and the product submitted to the printers.

Senator Inouye: What is the real cause for the delay?

Secretary Haig: As I stated earlier, this year the Administration has been careful to fully assess the merits of the individual country programs in the CPD. Each individual program has been made to answer the question, "Is the need critical?" This has unfortunately resulted in some slippage in our submission timetable.

## PAKISTANI RESPONSIVENESS TO U.S. CONCERNS

Senator Inouye: Mr. Secretary, the economic and military assistance package proposed for Pakistan in fiscal year 1983 totals $532,181,000. Pakistan would thus become the fourth largest recipient of U.S. assistance after Egypt, Israel, and Turkey.

The proposal is, I believe, part of a six-year $3.2 billion assistance package.

Is the Government of Pakistan, in return for this unprecedented assistance, being more responsive to U.S. concerns?

Secretary Haig: We are developing a close, cooperative relationship with Pakistan in a number of areas of mutual interest. We are particularly gratified by Pakistan's increasingly effective cooperation in the area of control of narcotics production and trafficking. We very much see eye-to-eye on Afghanistan, where Pakistan's firm opposition to the Soviet occupation of that nation has been critical to maintenance of the strong international concensus calling for a Soviet withdrawal. While differences of views remain, particularly in the areas of nuclear policy and human rights, we believe that our dialogue with the Government of Pakistan on these issues has been facilitated by the greatly enhanced overall political relationship which we have achieved during the past year.

### PAKISTAN NUCLEAR WEAPONS DEVELOPMENT

Senator Inouye: Has Pakistan ceased development of a nuclear weapon?

Secretary Haig: We believe that Pakistan has continued work on aspects of its nuclear development program which could have nuclear explosives or weapons relevance. Pakistan has not yet achieved the capability of exploding a nuclear device. The Pakistan Government is fully aware of the severe consequences which a nuclear explosion would have for our bilateral relationship.

### INDIAN THREAT TO PAKISTANI NUCLEAR FACILITIES

Senator Inouye: Does Pakistan face a growing threat of a preemptive strike by India against its nuclear installations?

Secretary Haig: While we obviously cannot exclude such a possibility, we see no evidence of Indian preparations for preemptive strike against Pakistani nuclear facilities.

Senator Inouye: How would the U.S. respond to such a strike?

Secretary Haig: I would not want to comment on such a hypothetical question.

### CONDITIONALITY OF AID TO PAKISTAN

Senator Inouye: Is aid to Pakistan unconditional? That is, do we, for example, require some movement toward the restoration of democracy?

Secretary Haig: Our assistance to Pakistan is provided because it is clearly in the interest of our own country--of the United States--to help Pakistan become stronger economically and develop an enhanced military capability to resist Soviet pressure through Afghanistan. At the same time, the closer bilateral relations which have developed over the past year do provide an atmosphere in which we can more effectively pursue a quiet dialogue on matters of interest to the United States.

Such matters do, of course, include human rights, which is an issue which this Administration has chosen to deal with through private diplomacy. In so doing, we take fully into account the intent of Congress, as stated in the Conference Report of the Fiscal Year 1982 Foreign Assistance Authorization bill, "to promote the expeditious restoration of full civil liberties and representative government in Pakistan."

### HAS ZIA OUTLAWED POLITICAL PARTIES?

Senator Inouye: Is it not true that General Zia has outlawed all political parties and has abandoned his pledges to hold free and fair elections?

Secretary Haig: President Zia has dissolved all political parties in Pakistan and there are no current announced plans for early elections. There have been some positive developments in recent months, including the easing of censorship and the creation of a Federal Advisory Council to provide a forum for the public airing of political opinion. President Zia has continued to maintain that his goal is the restoration of democracy in Pakistan, though he generally speaks in terms of development of an Islamic democracy, unique to Pakistan, whose main features remain undefined.

### ARE WE SUPPORTING AN UNPOPULAR DICTATOR?

Senator Inouye: Is the United States tying itself to an unpopular military dictator?

Secretary Haig: Our assistance program is designed to help Pakistan as a whole. There is a quite general recognition all across the political spectrum in Pakistan that that nation is under great pressure from the Soviet Union in Afghanistan. Under these circumstances, we expected criticism from some opposition elements, but believed that a broad spectrum of Pakistanis would consider our effort to help meet quite obvious Pakistani economic and military needs legitimate and highly relevant to the threat that nation faces today. We believe this to be so.

### IS U.S. BUILDING RELATIONS WITH PAKISTANI PEOPLE?

Senator Inouye: How are we building friendly relations, not just with today's military rulers, but also with the Pakistani people?

Secretary Haig: We have tried to make clear the purpose of our assistance program, which is to help Pakistan enhance its own capabilities to resist Soviet pressure through Afghanistan and strengthen the Pakistani economy. Over one-half of our assistance program is earmarked for economic development purposes and will directly benefit all Pakistanis, particularly those in most need and in economically less-developed areas. In addition, we maintain normal contact with a wide range of political personalities in Pakistan, including major figures in the political opposition. We use these contacts to explain our purposes and policies, and to make the specific point that our assistance is meant to strengthen Pakistan as a whole.

### COMPENSATION CLAIMS AGAINST PAKISTAN

Senator Inouye: Mr. Secretary, on November 21, 1979, an uncontrolled mob attacked the U.S. Embassy in Islamabad, Pakistan. The Embassy was destroyed and two American servicemen and two Pakistani employees of the Embassy were killed.

Has the Government of Pakistan satisfied all American claims for damages done to Embassy property?

Secretary Haig: The United States Government has submitted a claim totalling $20,185,586 for damages to government-owned real property. To date, we have received payment of $13,940,709 which represents the cost of rebuilding the destroyed Embassy compound and payment for reconstruction of the American Center in Lahore. The balance of the claim, $7,244,877 represents our claim for furniture and furnishings, equipment vehicles, and personal property.

The subject of our remaining claims on the Government of Pakistan is under active consideration by the Government of Pakistan. Some delays have occurred as we have conducted an extensive review of specific items comprising the balance of the claim.

We anticipate that discussions between our two governments on this matter will continue looking towards resolution of the outstanding claim.

Senator Inouye: Has the government made any payments in compensation for the loss of life?

Secretary Haig: The Pakistan Government has not paid damages to the survivors of the Marine Security Guard and the Army Warrant Officer killed in Islamabad. The respective services have made payments under existing military regulations.

### ISRAEL AND SOUTHERN LEBANON

Senator Inouye: Mr. Secretary, many observers of the continuing instability in the Middle East are fearful that Israel may again enter southern Lebanon and engage the forces of the PLO.

What is the current status of forces in southern Lebanon? Is the PLO engaged in a military buildup?

Secretary Haig: Our position on arms buildups is clear. They add to tensions. We are aware that equipment has been added to Palestinian inventories in Lebanon within the past eight months. In this regard, we have made our position very clear that actions on either side of the border between Lebanon and Israel which exacerbate tensions are not welcomed and should be avoided at all costs. Restraint and caution should be followed, with all parties cooperating to maintain the cease-fire.

Senator Inouye: How are Israeli forces deployed? Is there any evidence that they are being massed on the border with Lebanon?

Secretary Haig: Of course there is substantial Israeli presence in northern Israel and the Golan Heights. We have no evidence, however, that the Israelis are massing troops on their border with Lebanon.

Senator Inouye: If Israel were to cross the border into Lebanon, how would the United States respond?

Secretary Haig: It is difficult to say how we would respond to hypothetical scenarios. The Israelis are aware of our views on the need to maintain the cease-fire. They have said they will not be the first to break the cease-fire.

Senator Inouye: In reference to instability in Central America, you have said the United States would "go to the source." If Israel were to enter Lebanon, would it not be going to the source?

Secretary Haig: Our view remains that the cease-fire is important. No one has died as a result of cease-fire violations since it went into effect last July.

## DISBURSEMENT OF ESF CREDITS TO ISRAEL

Senator Inouye: Mr. Secretary, on February 12, Senator Kasten and I wrote to you in reference to the disbursement of Economic Support Fund monies to Israel. We offered our strong recommendation that ESF funds for Israel be immediately disbursed as called for by the Conference Report adopted by Congress on the Foreign Assistance Appropriations Bill for fiscal year 1982.

Late yesterday afternoon, I received a response from Under Secretary Buckley in which he indicated there would be no change in disbursements for Israel. In effect, Under Secretary Buckley said that policy guidelines decided by the President left the State Department no choice but to continue the disbursement schedule of the past two years.

Do you expect bipartisan support of the President's foreign assistance policies will continue even though the State Department ignores specific recommendations of the Congress?

Secretary Haig: As we have indicated in other responses to this question, we would never lightly go against the wishes of the conferees. The conference recommendation was taken fully into account in our deliberations. We also took into account the fact that compromises had been hammered out in order to pass the legislation.

Our system obviously depends on a partnership of Legislative and Executive branches. With respect to budgetary matters we recognize that we have the responsibility to propose a budget we believe meets both international and U.S. economic realities. We also recognize the ultimate right of the Congress to enact legislation governing the budget. We will continue to work with the Congress in a spirit of bipartisan cooperation and will seek to implement Congressional intentions as best we can.

Senator Inouye: Was your decision not to accelerate disbursement of ESF funds designed to punish Israel?

Secretary Haig: No, it was not. Policy guidelines decided by the President in response to Israel's action on the Golan only a day or two prior to the Congressional recess required that we treat elements of our relationship with Israel exactly as we had previously, no more and no less. Our strong concern for the U.S. budgetary implications of the additional Treasury borrowings required for more rapid disbursement was also a key factor.

Senator Inouye: Do you think a decision which forces Israel to seek costly commercial interim financing and which threatens bipartisan support in the Congress represents a farsighted foreign policy?

Secretary Haig: As already indicated, the cash transfer nature of the ESF monies and the current disbursement schedule places Israel in a very favorable position. While it is true that an even more rapid disbursement schedule would be financially advantageous to Israel, there is no reason to believe that acceleration of disbursements is necessary to prevent hardship. Moreover, accelerating the disbursement schedule is costly to this country.

Senator Inouye: Will you not reconsider this decision and release funds for Israel immediately?

Secretary Haig: We have no present plans to reconsider this issue. As noted above, three-quarters of the ESF monies have already been disbursed and the remainder will be disbursed within the next few months.

## IMPACT OF SINAI WITHDRAWAL

Senator Inouye: Mr. Secretary, on April 25, Israel is to complete its withdrawal from the Sinai. What effect do you think this will have on Egyptian attitudes and policies?

Secretary Haig: It is difficult to look at Egyptian policies in isolation, to consider only the impact of the final withdrawal. Clearly other events in the region could change significantly what might otherwise have been Egyptian policy. But to the extent one can isolate the impact of the final withdrawal, we believe that it may have a positive effect on Egyptian-Israeli relations, at least over time. As President Mubarak has stated, the departure of the last Israeli from Egyptian soil removes a major psychological influence on the way many Egyptians look at Israel. Israel will for the first time become just a neighboring state, not an occupying power on Egyptian territory. This should facilitate both government-to-government relations and popular attitudes.

On the basic issue of Egypt's adherance to the Camp David peace process, we believe this will continue largely unaltered. Egypt clearly sees a broader peace as in its national interest, an objective which can impact in a major fashion on Egypt's concern over regional security threats and the ability of the states of the region to work together to respond to those threats. President Mubarak has clearly recognized that the Camp David process has the essential ingredient of Israeli acceptance and thus remains the only avenue towards such a broader peace. As a result, we believe Egypt will carry forward on its commitment to pursue that process after April 25 just as it has been in the months preceeding the withdrawal.

## LIKELY COURSE OF MUBARAK POLICIES

Senator Inouye: Will you share with the Committee your thoughts on the policies of President Mubarak? Is he likely to seek a rapprochement with Arab countries at the expense of relations with the United States or with Israel?

Secretary Haig: We have every confidence that the policies of President Mubarak will remain very supportive of our key interests in the region, both the pursuit of a broader peace and responding to regional security threats. He has reaffirmed on numerous occasions Egypt's continuing commitment to the Camp David peace process and has stated flatly that any improvement in relations with other Arab states will not come at the expense of that commitment or Egypt's relations with Israel. Similarly, we see no threat to U.S.-Egyptian relations which would come from renewed ties between Egypt and the moderate Arab states. While recognizing the basis of existing differences, we have long been on record in expressing the hope that rapprochement between Egypt and like-minded Arab nations would prove possible. Egypt clearly shares that hope--Mubarak has said that he will not criticize other Arab governments or leaders regardless of what they say about Egypt--but only on the basis that they recognize that the fundamentals of Egyptian policy will not change.

## STATUS OF AUTONOMY TALKS

Senator Inouye: It appears that the autonomy talks are stalled and that there will be no significant movement until after April 25. Is that an accurate reading of the situation?

Secretary Haig: It is true that we were not able to hold the trilateral working level sessions scheduled for last month.

However, we hope the May session will be held on schedule. There were no sessions set for April because many of the Israelis involved also have responsibilities in connection with the withdrawal from Sinai. However, we continue to pursue bilaterally the substantive issues in the negotiations and a number of ideas I put forward during my recent trips to the area are being considered by Egypt and Israel.

## 1983 AID REQUESTS FOR EGYPT

Senator Inouye: Mr. Secretary, the Administration is requesting a combined total of $1,974,711,000 in fiscal year 1983 economic and military assistance for Egypt. Of this amount, $900 million is to be in the form of Foreign Military Sales credits.

I understand the Administration will seek authorization to waive the repayment of $400 million in military credits. Is that correct?

Secretary Haig: The Administration is requesting for Egypt in fiscal year 1983 a combined total of economic and military assistance of $2,321,344,000. $1.3 billion of this total is FMS credits, and we are requesting that $400 million of that amount be forgiven. The figure you quoted for FMS, $900 million, was the fiscal year 1982 total, of which $200 million is to be forgiven.

## EGYPT - CASH FLOW FINANCING

Senator Inouye: The Executive Branch has authorized Egypt to purchase equipment costing more than $3.5 billion even though only $2.05 billion in loan guarantees has been allocated for Egypt. This implies a strong commitment by the United States to provide large amounts of credit in future years.

Can you tell the Committee why the Executive Branch has authorized these purchases and what the consequences would be if the Congress were to deny further military credits to Egypt?

Secretary Haig: We have specifically told the Egyptians that we cannot commit the Congress in advance and that assistance levels in Fiscal Year 83 and beyond must be subject to Congressional action.

We are, however, clearly committed to a long-term support relationship for Egypt on both economic and military fronts. This commitment stems from Egypt's needs and the strong support which it in turn has offered us on regional peace and security issues so vital to our interests. Moreover, this commitment has been fully supported in the Congress and by the public.

It was in this context that we agreed--and so informed the Congress--to fund the Egyptian program under the "cash flow" system. This sytem does permit Egypt to defer funding of out-year payments until the year in which they come due. Rational planning and timely orders, allowing for existing lead times, require utilization of this system if our program is to be responsive to Egypt's requirements. However, while the system does carry with it the assumption that Administration and Congressional support for Egypt will be maintained, the Egyptians fully understand that, should future funding levels be cut, Egypt will still remain responsible for out-year payments. Moreover, termination liability costs are included in the annual schedule of payments on given equipment orders to ensure that U.S. interests would be protected in the unlikely event that funding levels are cut and Egypt cannot meet the remaining obligations from its own resources.

## SUEZ CANAL TOLLS AND U.S. USAGE

Senator Inouye: Mr. Secretary, in fiscal year 1975, following the Sinai II Disengagement Agreement, the United States began in earnest its assistance program for Egypt. As I recall, U.S. Navy minesweepers and ordinance demolition teams cleared the Suez Canal at a cost of about $30 million.

Do you know how much Egypt earns each year in Suez Canal tolls?

Secretary Haig: Egypt earns about $750 million annually in Suez Canal tolls. In the Egyptian fiscal year which ended June 30, 1981, Egypt received $780 million in Suez Canal earnings.

Senator Inouye: Does the Government of Egypt require the U.S. Navy to pay a toll whenever one of our ships transits the Canal?

Secretary Haig: Yes, Senator. According to figures provided by our Defense Attache's office in Cairo, from January 1979 to August 1981, the U.S. Navy paid tolls of about $3.3 million.

Senator Inouye: Do you think this is appropriate? The U.S. paid to reopen the Canal, from which Egypt derives substantial benefit, and now we must pay again for passage of our ships.

Secretary Haig: The U.S. was one of several nations that participated in clearing mines and explosives from the Suez Canal bed. Naval units from Egypt, France, the U.K., and the USSR also participated in the Canal clearance. In addition to USAID funds, Egypt also obtained major loans from the World Bank and Arab donors to finance necessary repairs to allow the Canal to reopen. Egypt itself contributed an estimated $75 million for the initial repair work. Were Egypt to permit toll-free passage to all nations which helped in the opening of the Canal, it would have to forego substantial revenues, funds that make a major contribution to Egypt's economic development, an objective which is a major one for us as well. Moreover, we clearly already receive major direct and continuing benefit for our trade and commerce from the funds and effort that we contributed in helping to restore this key waterway to full operation. It is therefore, I think, appropriate that we and other countries which assisted Egypt continue to pay Suez Canal tolls.

Senator Inouye: Mr. Secretary, I obviously knew the answers to these questions before I asked them. I think the imposition of tolls on the U.S. Navy is unfair, particularly in consideration of the vast amounts of assistance we provide to Egypt.

I do, however, have one further question on this matter. On February 10 of this year, the General Accounting Office informed you and Secretary Weinberger that the U.S. Navy paid an estimated $607,000 in excess toll charges for Suez Canal transits from January 1979 through August 1981.

Has the Department of State or the Department of Defense taken any action to recover these excess payments?

Secretary Haig: No, we have not. As the GAO report notes and as is reflected in the use of the word "estimated" in connection with these apparent over-charges, the record is not precise on the extent of the over-charges which may have been made. The GAO report reflects both under and over-charges and notes that the absence in most cases of tonnage certificates (to be filed by the U.S. Navy with the Suez Canal Authority) meant that fees were charged on the basis of the Authority's estimate of the tonnage. Such estimates can, of course, be challenged, but having failed to file the called for certificates, thus eliminating any question as to the exact tonnage, our position in doing so is much more subjective. Moreover, to seek retroactively to challenge transit charges which were duly accepted at the time and paid without question, further weakens our position.

As a result, we believe, as the GAO report recommends, the appropriate course is to look to the future and take measures to avoid such overcharges henceforth. Embassy Cairo has taken steps to ensure that all transit charges will be examined, first, against any tonnage certificates that may be on file, and, second, where such certificates do not exist, to ensure that the tonnage estimates used by the Canal Authority appear reasonable. Should such estimates appear excessive, the Embassy will withhold payment until differences can be resolved.

At the same time, it is our understanding that the U.S. Navy is seeking on an urgent basis the issuance by the U.S. Coast Guard of the required Suez Canal Special Tonnage Certificates for all classes of ships that might transit the Canal. Once these are on file with the Canal Authority the likelihood of over-charges will be greatly reduced and the basis clearly established for resolving any instances that might occur.

## GREECE - SECURITY ASSISTANCE

Senator Inouye: Mr. Secretary, the Administration is proposing $282,568,000 in military assistance to Greece in fiscal year 1983. The new Prime Minister of Greece, Mr. Andreas Papandreou, has at times been sharply critical of NATO and the presence of U.S. military installations in Greece. What is the present state of affairs?

Secretary Haig: Prime Minister Papandreou promised the Greek electorate a reexamination of Greece's role in the Alliance. Following his election, the Greek government has discussed its approach to the Alliance in several NATO forums. This is an appropriate way to deal with NATO matters. Greece participates fully in the activities of the Alliance and will be represented at the NATO ministerial and summit meetings this spring.

As far as U.S. military facilities are concerned, they continue to operate under previous agreements and arrangements. Both Greece and the United States have for some time recognized the need to update and modernize these arrangements and have entered into negotiations to do so. The most recent negotiations began in January 1981 and were suspended by he Greek government in June because of the Parliament's summer recess. No date has been set, but we will be prepared to resume negotiations whenever the Greek government indicates it wishes to do so.

Senator Inouye: Is the proposed assistance linked to U.S. access to our naval and air installations in Greece? If so, how?

Secretary Haig: The security assistance program for Greece is designed to be an integral part of U.S. policy toward Greece, a key NATO ally, and to provide a continuing indication of American support for a democratic Greece. The specific purpose of the program is to supplement economic resources inadequate for the modernization and upgrading of Greek armed forces and the fulfillment of their NATO responsibilities. Successive Greek and American governments have concluded that a close bilateral relationship is in the national interest of both countries and provides for the common defense. Furnishing security assistance to Greece is consistent with U.S. policy to preserve the balance of military strength among countries of the region, to encourage the peaceful resolution of differences in the eastern Mediterranean and to support a peaceful settlement of the Cyprus situation.

## THE CARIBBEAN BASIN INTIATIVE

Senator Inouye: Mr. Secretary, the President has indicated that he will soon submit a request for a supplemental fiscal year 1982 appropriation of $350 million for the Caribbean Basin Initiative.

Can you tell the Committee how the Administration will allocate this funding? Which countries are to receive assistance and how much will each receive?

Secretary Haig: I would like to submit to the Committee a table which outlines our planned allocation of ESF funds in this fiscal year. The table shows the allocations by country of the Supplemental of ESF already appropriated in the FY 82 budget and the total amount which will be received from these sources if the Congress approves the full amount of the Supplemental request.

| | FY 82<br>Suppl | OYB | Total |
|---|---|---|---|
| Costa Rica | 70 | 20 | 90 |
| Dominican Republic | 40 | - | 40 |
| El Salvador | 128 | 40 | 168 |
| Haiti | 5 | - | 5 |
| Honduras | 35 | - | 35 |
| Jamaica | 50 | 40 | 90 |
| Nicaragua | - | 20 | 20 |
| Belize | 10 | - | 10 |
| Caribbean Reg. | 10 | 20 | 30 |
| LAC Reg./AIFLD | 2 | - | 2 |
| TOTAL | 350 | 140 | 490 |

Senator Inouye: How was the figure of $350 million determined? Did the State Department survey the needs of individual countries and then add them together for a total of $350 million, or was the total set before country needs were determined?

Secretary Haig: The amount of the Supplemental request is directly related to our projections of each country's needs. Even for the countries and activities which we hope to assist through this Supplemental, the needs are in fact greater than our request. Our request is a balance between their real needs, the known and expected contributions of other assistance donors, and our view of the appropriate role of the U.S. within our budgetary limitations in providing incremental aid.

Senator Inouye: So the $350 million is what might be called a notional amount, having no direct relationship to specific country requirements. Is that correct?

Secretary Haig: Perhaps it would be useful to review the process by which we developed the CBI proposals and, incidentally, the request for supplemental financing. About one year ago, we began to explore steps to help Basin countries overcome their economic difficulties. As a first step in that process, area specialists from State and AID developed initial multiyear projections of the likely balance of payments gaps for each country. Those first projections were admittedly rough, but they revealed in stark form the magnitude of problems which we had already recognized in a qualitative, but not quantitative, way. The numbers proved that something beyond a routine approach would be necessary to solve the problem.

Over the past year, those projections have been updated and broadened to include the high-priority, otherwise uncovered needs of Belize and the Eastern Caribbean. We first focussed on those countries suffering the greatest economic distress and then sought to refine our projections. I would like to submit to you tables which summarize the results. As you can see, the tables show, for each country of emphasis, projected current account gaps, net capital inflows including those from our own FY 1982 budget, expected additional finance from the IMF or IBRD, and the amount we are requesting for the country in this Supplemental. The final number is the still unfinanced balance of payments gap resulting after all sources of currently known assistance are taken into account. We are hopeful that these additional needs will be met by new commitments from other donors.

While our projections of payments gaps are just that--projections--and may well vary from the final results at the end of the year, they are far from arbitrary. Thus, our supplemental request is based on our projection of real needs in the most-affected countries, tempered by the President's determination to keep budget requests down to essential minimums.

### BELIZE
### Balance of Payments Gap - 1982
### ($ millions)

| | | |
|---|---|---|
| Current Account | | - 54 |
| Capital Account | | 23 |
| CDB | 5.4 | |
| UK | 11.4 | |
| EDF | 3.0 | |
| Canada | 1.4 | |
| CDC | .5 | |
| Ven/Mex | 4.7 | |
| Gap | | 31 |
| Additional Finance | | |
| IMF | 6 | |
| US Supplemental | 10 | 16 |
| Unfinanced Gap | | 15 |

## COSTA RICA
### Balance of Payments Gap - 1982
### ($ millions)

| | | |
|---|---|---|
| Current Account | | - 393 |
| Capital Account | | 181 |
| Private | 0 | |
| Official | 181 | |
| AID | 50 | |
| IBRD | 31 | |
| Ven/Mex | 57 | |
| FRG | 15 | |
| Japan | 7 | |
| Gap | | - 212 |
| Additional Finance | | |
| IMF | 72 | |
| US Supplemental | 70 | 142 |
| Unfinanced Gap | | 70 |

## DOMINICAN REPUBLIC
### Balance of Payments Gap - 1982
### ($ million)

| | | | |
|---|---|---|---|
| Current Account | | | -806 |
| Capital Account | | | 619 |
| Private | | 320 | |
| Official | | 299 | |
| AID | 24.3 | | |
| IDB | 93.2 | | |
| IBRD | 70.0 | | |
| IDA | 14.4 | | |
| USCC | 57.0 | | |
| Other | 40.1 | | |
| Gap | | | -187 |
| Additional Finance | | | |
| IMF | 72 | | |
| IBRD | 20 | | |
| US Supplemental | 40 | | 132 |
| Unfinanced Gap | | | 55 |

## EASTERN CARIBBEAN
Balance of Payments Gap - 1982
($ millions)

| | | |
|---|---|---|
| Current Account | | -150 |
| Capital Account | | 115 |
| Private Capital | 40 | |
| U.S. | 18 | |
| U.K. | 12 | |
| Canada | 10 | |
| CDB | 12 | |
| EDF | 8 | |
| Others | 15 | |
| Additional Finance | | 13 |
| IMF | 3 | |
| U.S. | 10 | |
| Unfinanced Gap | | 22 |

## EL SALVADOR
Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -362 |
| Capital Account | | | 165 |
| Private | | - 50 | |
| Official 1/ | | 215 | |
| AID | 122.5 | | |
| IDB | 64.8 | | |
| Ven/Mex | 48.4 | | |
| CABEI | 13.8 | | |
| Gap | | | -197 |
| Additional Finance | | | |
| IMF | | 85 | |
| Arrearages | | 40 | |
| | | 45 | |
| US Supplemental | | 128 | 173 |
| Unfinanced Gap | | | 24 |

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1/ Official capital data are available from the GOES on a net basis. Individual donor figures are from donors on a gross disbursement basis.

### JAMAICA
### Balance of Payments Gap - 1982
### ($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -584 |
| Capital Account | | | 311 |
| Private | | 7 | |
| Official | | 304 | |
| UK | 10 | | |
| Canada | 15 | | |
| IDB | 30 | | |
| IBRD | 30 | | |
| OPEC | 10 | | |
| Ven/Mex | 75 | | |
| Trinidad/Tobago | 30 | | |
| Decrease in Arrearages | | | - 30 |
| Gap | | | -303 |
| Additional Finance | | | |
| IMF | 119 | | |
| IBRD | 75 | | |
| US Supplemental | 50 | | 244 |
| Unfinanced Gap | | | 59 |

### HAITI
### Balance of Payments Gap - 1982
### ($ millions)

| | | |
|---|---|---|
| Current Account | | -176 |
| Capital Account | | 148 |
| Gap | | 28 |
| Additional Finance | | |
| IMF | 25 | |
| US Supplemental | 5 | 30 |
| Reduction in Arrears | | 2 |

### HONDURAS
### Balance of Payments Gap - 1982
### ($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | - 398 |
| Capital Account | | | 277 |
| Private | | 75 | |
| Intermediaries | | 12 | |
| SDR & Other | | 25 | |
| Official | | 165 | |
| AID | 42.6 | | |
| IDB | 63.7 | | |
| CABEI | 19.7 | | |
| IBRD | 31.3 | | |
| Ven/Mex | 15.9 | | |
| Gap | | | - 121 |
| Additional Finance | | | |
| IMF | 27 | | |
| US Supplemental | 35 | | 62 |
| Unfinanced Gap | | | 59 |

## ARMS SALES POLICY

Senator Inouye: Mr. Secretary, on March 17, 1975 the Senate Committee on Appropriations issued its report on the fiscal year 1975 Foreign Assistance and Related Programs Appropriations Bill. A particular concern of the Committee was the dramatic increase in U.S. military sales abroad. They have increased from about $1.3 billion in 1970 to $8 billion in 1974.

Can you tell the Committee what the level of U.S. Foreign Military Sales was in 1981?

Secretary Haig: For FY 1981, FMS sales totaled $7,172,894,000.

Senator Inouye: I believe that the rate of arms sales abroad under the Reagan Administration has been higher than it was under Presidents Nixon, Ford, or Carter. Is that correct? To what do you ascribe this increase?

Secretary Haig: The record does not support such a contention. Foreign military sales under President Nixon rose to $8.4 billion, during President Ford's Administration the maximum was $11.5 billion, and sales increased to an all time post-Vietnam high in President Carter's Administration to $13.9 billion. For FY 1981 the total was $7.1 billion as I previously stated. We had estimated foreign military sales at $13 billion for FY 1981, however, actual sales were significantly less as a result of anticipated sales not materializing. It is expected that the majority of the FY 1981 deferred sales will take place in FY 1982. Allowing for these deferred sales we have estimated total FMS sales will be above $13 billion for FY 1982, and will return to about the $13 billion level in FY 1983. These figures do not include military construction sales.

Senator Inouye: Has the Department of State removed restraints on arms sales?

Secretary Haig: We view arms transfers as an essential feature of our defense and foreign policy. The President has made it clear that we will oppose Soviet aggression and help friendly and allied countries to defend themselves. This doesn't mean that we are pursuing rapid or uncontrolled expansion of arms sales. On the contrary, our approach is on a case-by-case analysis basis to ensure appropriate United States Government direction and control. I want to emphasize our belief that lower costs, lower technology systems may be appropriate for many countries. Our decisions are based primarily on the net contribution of the sale to deterrence and defense. Of course, we accord high priority to requests from alliance partners and from friendly countries with whom we have security ties. I would also emphasize that the Administration examines carefully whether the weapons system can be absorbed by the recipient militarily and financially. It should be noted that the Administration is genuinely interested in conventional arms transfer restraint, but we are not going to pursue unilateral restraint that jeopardizes our security position.

Senator Inouye: Does this increase in arms sales concern you? How can this nation become a leader in establishing effective restraints on arms sales?

Secretary Haig: The record shows that U. S. arms sales in nominal terms have remained fairly constant during the past several years or, considering the increased cost of arms even declined. U. S. arms transfers under the Carter administration period averaged about what they were during the previous four years under Presidents Nixon and Ford. During the transition year of fiscal year 1981 the level was lower due to deferred sales as stated previously. However, as I explained, we anticipate sales for fiscal years 1981 and 1982 to average out to about the 1980 level. The United States has, as you know, taken the lead in the past in seeking reductions in world-wide arms transfers. The last Administration sought multilateral restraint through conventional arms transfer talks. These failed for lack of support from our friends and allies, as well as the Soviet Union. During this period the sales of other nations in fact increased significantly. In 1980 France and the Soviet Union surpassed the U. S. as a supplier to the Third World. Despite this record we remain dedicated to the goal of multilateral restraint and will continue to examine means of achieving that goal.

Senator Inouye: Do you have any suggestions about how this could be done?

Secretary Haig: Given the recent history I have outlined I see no immediate solution. For the present we will continue to provide an example of restraint, considering each country on a case-by-case basis, and carefully weighing all factors including the contribution a given sale would make to our security.

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## QUESTIONS SUBMITTED BY SENATOR LEAHY

### EL SALVADOR: FORCE LEVELS

Senator Leahy: Mr. Secretary, I have some questions about the military situation in El Salvador and your request for additional funds. What is the current strength of the El Salvador armed forces?

Secretary Haig: The total strength of the regular armed forces (Army, Navy, and Air Force) is approximately 16,000. Public security forces (National Guard, National Police, and Treasury Police) total approximately 9,000.

Senator Leahy: What are the estimates of the guerrilla force levels?

Secretary Haig: We estimate that there are approximately 5000-5500 guerrilla cadre and perhaps an additional 5000-8000 guerrilla support personnel.

### EL SALVADOR: FORCE RATIOS

Senator Leahy: Given the rule of thumb developed over the years on guerrilla war, that is, you need to have a 10 to 1 ratio of regular troops to guerrillas in order to win, what would the necessary troop strength be for El Salvador?

Secretary Haig: Given our estimates of guerrilla force levels, to obtain a 10 to 1 ratio would require a Salvadoran force level of about 50,000 men, assuming no increase in guerrilla strength. However, it must be kept in mind that the 10 to 1 ratio, derived from the British experience in Malaysia, has never been validated. Additionally, a multitude of factors impact on the optimum force ratio for guerrilla war. Not the least of these is the attitude of the populace towards the government and the guerrillas. The Salvadoran people have demonstrated repeatedly their rejection of the guerrillas, most notably in the massive turnout for the March 28 elections, despite guerrilla attempts to intimidate the people not to vote. We would also note that guerrilla forces have had little success in attracting new recruits in the past months.

Senator Leahy: How likely are they to achieve that level?

Secretary Haig: To reach a 10 to 1 force level in terms of equipment would not be possible under current U. S. security assistance levels. The Salvadoran military has no difficulty in recruiting, however, and could easily recruit the personnel for a 50,000 man armed force.

Senator Leahy: What is the morale of the Salvadoran army?

Secretary Haig: The morale of the Salvadoran army is high.

Senator Leahy: What is the AWOL rate?

Secretary Haig: We have no precise information on the AWOL rate but all indications are that it is low.

Senator Leahy: What is the rate at which arms have been lost or reported missing?

Secretary Haig: We do not have reliable figures, which, in any case, would have to come from the El Salvadoran government. Moreover, even it may not have entirely accurate figures. It should be noted that a favorite tactic of the guerrillas is to isolate and overrun small government outposts, thereby capturing weapons and equipment. Frequently, these are civil guard type units with older weapons such as M-1 carbines and Garand rifles. Most modern U.S.-made weapons in the hands of the guerrillas were furnished from stocks captured in Vietnam.

## EL SALVADOR: HELICOPTERS

Senator Leahy: How many helicopters does the army have now?

Secretary Haig: The Salvadoran military currently has 14 UH1H transport helicopters supplied through our security assistance program. It has some additional small helicopters purchased through commercial channels.

Senator Leahy: How many helicopters do you need for each 1000 troops in order to achieve a satisfactory level of mobility?

Secretary Haig: A UH1H will carry approximately 10 combat-equipped Salvadoran soldiers. Thus, it would require about 100 helicopters for one lift. However, the normal means of employment is shuttling of troops which reduces the number required. Precise needs would depend on the distance travelled, altitude and other factors. Certainly, the mobility of the Salvadoran army would be improved with more helicopters, but we must balance the cost of such equipment against other security assistance requirements, pilot availability, and maintenance capabilities.

Senator Leahy: How many helicopters would be necessary to equip adequately an army in El Salvador?

Secretary Haig: The question of what is "adequate" is difficult to assess because we must balance mobility needs against cost, pilot availability, and other priority requirements.

Senator Leahy: How many pilots does El Salvador have now?

Secretary Haig: There are approximately 20 UH1H-qualified pilots on the Salvadoran Air Force.

## EL SALVADOR: FY 1982 MILITARY ASSISTANCE PROGRAM

Senator Leahy: What is the current request for military assistance to El Salvador?

Secretary Haig: For FY 1983, we are requesting $60 million in Foreign Military Sales credits, $50 million of which would be on concessional terms. We are also requesting $1.3 million in grant training funds under the International Military Education and Training (IMET) program.

Senator Leahy: What does it include?

Secretary Haig: The FMS credits would be used to purchase additional helicopters, patrol craft, vehicles, engineering and communications equipment, arms and munitions to give the armed forces the mobility to counter guerrilla tactics and stem the flow of materiel from their foreign supporters. The IMET program will provide essential training at U. S. military schools in the U. S. and in Panama, a key element in our strategy to develop a more disciplined force and minimize abuses of the civilian populace. It would also be used to fund U. S. military training and technical teams (MTT's) requested by the Salvadoran government to conduct in-country training to increase their force levels and gain proficiency in the use and maintenance of equipment received from the U. S.

Senator Leahy: How many helicopters?

Secretary Haig: The precise number we might provide in FY 1983 has not been determined.

## EL SALVADOR: DEFEAT OF THE INSURGENCY

Senator Leahy: Can you give us a projection, based upon current estimates of the insurgents' troop strength, of the time needed to defeat the insurgency on the basis of the Salvadoran army's current state of readiness?

Secretary Haig: Our support for the Salvadoran military efforts is only one component of our program to arrest the spread of subversion in the area. We believe we are making significant progress. However, we believe that only a policy addressing the problem of external support for the guerrillas as well as the endemic social, political, and economic problems that have contributed to and been exacerbated by the insurgency can lead to a stable, prosperous El Salvador. We believe that the electoral process, now in train, along with the economic reforms undertaken over the past two years and the Caribbean Basin Initiative will lead to such a solution. Meanwhile, the Salvadoran military must have the capability to protect the people and the democratic process.

Senator Leahy: At the readiness level to be achieved by the proposed additional United States expenditures in FY 1983?

Secretary Haig: It is difficult to make a time estimate of this sort since much depends on the course the leftist guerrillas and their foreign supporters choose to take.

## LATIN AMERICAN BLOCKADE

Senator Leahy: Mr. Secretary, other options have been raised in Central America. It has been suggested, in fact, you have indicated yourself that the United States might need to take action against the alleged flow of arms between Cuba and Nicaragua into El Salvador.

If the United States initiated a naval blockade, what other nations do you think would participate in such an effort?

Secretary Haig: It is neither possible nor helpful to speculate as to how other countries might act in a hypothetical situation such as that described.

Senator Leahy: Would we have to pay their costs?

Secretary Haig: Since we are not presently contemplating a blockade, it would be both difficult and inappropriate to talk of costs in various hypothetical situations.

Senator Leahy: How much would it cost the United States taxpayer to pay for an adequate military blockade?

Secretary Haig: It would be inappropriate and unhelpful to speculate on or estimate the costs of a hypothetical blockade.

Senator Leahy: Does Secretary Weinberger feel that such a blockade would be feasible? Successful?

Secretary Haig: You would have to address Secretary Weinberger as to that.

Senator Leahy: Do you and Secretary Weinberger have any disagreements over our military policy toward El Salvador?

Secretary Haig: The President articulates our foreign and military policies. The decisions are his. The Secretaries of Defense and State advise the President on these matters, in many facets and on many issues. Both of us have contributed to the formulation of these policies and both of us support the President's decisions on these matters.

## HONDURAS-NICARAGUA: JOINT BORDER PATROLS

Senator Leahy: Mr. Secretary, in light of your concern about arms shipments, does the Administration have any objection to the offer by the Government of Nicaragua for a joint border patrol to be maintained by the Honduran and Nicaraguan armies to monitor the alleged arms flow over their joint border?

Secretary Haig: Joint border patrols do not adequately resolve the issue because arms trafficking involves more than border crossings. That is why the Hondurans have set forth a more comprehensive proposal involving international supervision and monitoring. We support the Honduran initiative and we propose that the OAS or any other mutually agreeable regional organization be called on to provide on-site verification of these agreements at ports, airports, border areas, and strategic sectors, as outlined in the Honduran proposal.

Senator Leahy: Because of our relationship with Honduras could we feel secure with such an arrangement?

Secretary Haig: The idea of joint border patrols does not address the problem adequately. We therefore do not support it. Instead, we offer our support to the more comprehensive and extensive Honduran initiative involving on-site international verification.

## INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

Senator Leahy: This Subcommittee last year prevailed on the Senate and ultimately the House and Senate conferees not to provide funding in the FY 82 Appropriations Bill for IFAD. One of the reasons was that we did not expect others -- particularly the OPEC nations -- to fulfill their pledges to IFAD's replenishment before next summer. I was one who wanted to see us provide funds in the bill anyway on the chance that they would.

Now, however, the tables are turned. At a meeting in Rome last January, OPEC countries came up with an additional $20 million, completing their share. IFAD's replenishment was formally agreed to by its Governing Council. The Saudis, the Canadians, and the OPEC Special Fund have already made available their contribution not just for the first year, but for all three years.

It is my impression that we are now beginning to hear from other countries who are concerned that we will not come through with a payment in the months before FY 82 ends, and -- worse still -- that we may not meet our $180 million commitment during the 3 years allowed. In your view, how important is it to the United States and the Administration to meet its obligations to IFAD?

Secretary Haig: I believe it is particularly important for the United States to carry through with the provision of new funding for IFAD. I say this not only because this is a valuable development institution, but because of its importance to our relations with other major donor countries including European allies and key members of the OPEC group. Saudi Arabia, for example, has recently paid in its contribution in cash and would simply not comprehend lack of commensurate effort on the part of the United States. Moreover, since the United States was able to obtain agreement to certain measures including a staff freeze and increased OPEC contributions as conditions of our participation, we may be accused of having negotiated in bad faith if we do not now follow through with our contribution.

Senator Leahy: If a way could be found to make a payment before FY 83 would you support that approach?

Secretary Haig: The Administration originally requested $45 millon for IFAD for FY 82. For reasons of budget austerity, the request was subsequently reduced by 12 percent to $39.6 million. Although the Congress authorized $180 million, it did not include an amount for IFAD in the FY 82 appropriation. In this context, our FY 83 request is for $65.4 million and the Administration plans to request the balance of the $180 million for FY 84. We are prepared to discuss with appropriate committees alternative ways of assuring adequate funding on a timely basis consistent with the Administration's budget strategy.

### EL SALVADOR: PROSPECTS FOR A POLITICAL SOLUTION

Senator Leahy: In the past, the Administration has stressed that we are working for a political--not a military--solution in El Salvador. What are your plans for continuing along the lines of a political solution after the forthcoming elections?

Secretary Haig: The U. S. seeks a political solution to the Salvadoran conflict through democratic reform. We have strongly supported President Duarte's efforts to move toward a peaceful resolution through free elections. The March 28 constituent assembly election was an important step in this direction. We have repeatedly expressed our willingness to facilitate contacts among the various political elements in El Salvador to achieve the broadest possible participation in the electoral process--a process which is only beginning. We will continue to work to ensure that all political groups which now wish to participate peacefully in this process...the work of the constituent assembly, organization of elections for a national assembly, etc., will have the opportunity to do so.

## QUESTIONS SUBMITTED BY SENATOR CHILES

### NARCOTICS CENTRAL POLICY

Senator Chiles: The source of much of the illicit drugs (cocaine, marijuana, illegally produced Quaaludes) that are coming into the United States is South America. I recognize that a variety of considerations go into the formulation of our foreign policy with any country.

What priority does the State Department place on a drug producing country's willingness to work with the United States on joint drug eradication programs?

Secretary Haig: A drug producing country's willingness to work with the United States on drug control programs is a high priority in developing our overall policies and cooperative programs relating to that country. It is a virtual requisite for establishing joint drug control programs, since we clearly can do nothing with or in a foreign country until we have that country's blessing. The Department gives high priority to achieving and maintaining a positive political environment for our drug control initiatives in producing countries. Narcotics control is a standard topic for discussion during my meetings with the leaders of major narcotics producing countries. My senior advisors follow the same practice.

### NARCOTICS AND FOREIGN ASSISTANCE

Senator Chiles: For those countries (Peru, Bolivia, Jamaica), does the State Department plan to make general foreign assistance contingent upon their cooperation with the United States in crop eradication and other drug control programs?

Secretary Haig: The degree of their cooperation in drug control is a factor in determining our overall relations with all three countries, and thus our policy on general foreign assistance to them. We are currently negotiating with the Government of Bolivia several measures, including a coca control program, which are expected to demonstrate that Bolivia is taking effective anti-narcotics actions before we resume foreign assistance. Peru has embarked on a major rural development/coca control project with us in the Upper Huallaga Valley, the major coca producing area of that country. We are working closely with the Jamaican government in encouraging its attempts to establish a course of action against narcotics trafficking and marijuana crop controls.

## NARCOTICS CONTROL BUDGET REQUEST

Senator Chiles: Mr. Secretary, we have been trying to send out a signal to the Latin American countries which are the sources for illegal drug production that we are serious about cracking down on drug trafficking. As I look at the 1983 funding requests for International Narcotics Assistance to some of the Latin American countries (Brazil, Colombia, Ecuador and Mexico) I see that these requests are lower than in previous years.

How do we explain lower funding or, at best, very moderate increases to countries that we want to step up efforts?

Secretary Haig: Our narcotics control funding projections are based on three general criteria: 1) our greatest resource to be applied to this problem is not money, rather the linkage of this concern, by diplomatic efforts, with our overall interests and actions; 2) our estimate of the host government's need for and ability to utilize effectively U.S. assistance, and, 3) our best anticipation of opportunities to advance narcotics control in FY 1983 when the projections are formulated. Should new opportunities or approaches to drug control arise after any budget submissioning, I assure you we will take all possible actions, either by reprioritization within our resources or, if necessary, by going back to the Congress.

## STATUS OF AERIAL HERBICIDE MARIJUANA ERADICATION

Senator Chiles: In 1976, the United States assisted Mexico in financing an aerial herbicide program to eradicate poppy fields. This program was then extended to eradicate marijuana fields as well. The program was a major success, with most of the credit going to the Mexican Government because of their willingness to undertake such steps.

Now that Congress has cleared the way for the U.S. to once again provide assistance for herbicide eradication, has there been any attempt to convince other Latin American countries to initiate such aerial eradication programs? If so, where? And what has the response been?

Secretary Haig: We have one additional legal requirement to fulfill before we may engage other governments in discussion on marijuana eradication with paraquat which had been precluded until the recent amendment. Under provisions of the National Environmental Policy Act (NEPA) we must assess the potential impact on the United States of a major federal action abroad. We are now following the NEPA requirements to determine whether or not paraquat sprayed on marijuana abroad might have a health impact in the United States; this should be completed by September.

## NARCOTICS SHIP FOR COLOMBIA

Senator Chiles: In 1980, as part of the large infusion of aid to Colombia for narcotics control, a sophisticated ship or cutter was included for interdiction purposes. My understanding is that this cutter has been one of the most effective tools used by the Colombian Government in its narcotics interdiction strategy.

Are there any plans to provide Colombia with another ship of this type?

Secretary Haig: The cutter you refer to was turned over to the Colombian Customs agency in September 1981. The Colombian Navy, having seen it in operation, decided to purchase a similar one for its own narcotics interdiction effort utilizing funds appropriated in FY 1980. We are assisting the Navy in arranging construction with the U.S. supplier.

## DISCRETIONARY OR SPECIFIC AID

Senator Chiles: From a broader standpoint, does the Secretary think that perhaps providing narcotics control equipment, such as the cutter supplied to Colombia, might be more effective than just providing descretionary aid? Could we be targetting our funds in a better fashion?

Secretary Haig: We do not consider any narcotics control assistance discretionary in nature, in the sense that it is outside a strategy of narcotics control and specific programmatic objectives. In the case of Colombia, the majority of our assistance is specifically programmed to support the National Police's efforts to interdict marijuana as close to the cultivation source as possible. Notable success was achieved in 1981. We still believe the most effective control method is, however, of the crop itself and we hope that program possibility develops.

## PERUVIAN ASSURANCE ON COCA CONTROL

Senator Chiles: In staying with this point, I see we have a requested increase for narcotics control in Peru.

What assurances do we have from the Peruvian Government that they plan a campaign against coca production or against any other drug?

Secretary Haig: The Peruvian government has said publicly and has made clear to us its policy of controlling coca production to that level needed to meet the needs of traditional chewing of coca leaf and the legal export of coca and its derivatives. We believe the Peruvian government has already demonstrated its strong commitment to a campaign against coca production, witness the U.S.-supported "Green Sea" I and II operations of 1980 and 1981 which resulted in coca eradication and destruction of processing facilities. The new element in this on-going campaign, for which we are requesting increased assistance, is a major five-year rural development/coca control project we began with the government last September. This project, in which AID and the Bureau of International Narcotics Matters are linked with Peruvian ministries, seeks the integrated objectives of eliminating coca cultivation in the Upper Huallaga Valley, Peru's major coca producing area, and the development of that area's economy.

## CROP SUBSTITUTION

Senator Chiles: Has there been any work in the area of crop substitution programs for a country that willingly undertakes a herbicide spraying program?

Secretary Haig: I would prefer to expand the question to crop control in general, since herbicide spraying is but one method, even of eradication, in achieving crop control. With that preface, I can say "yes" there has been work by the United Nations Fund for Drug Abuse Control (UNFDAC) which we support, and by the United States, in crop substitution programs with governments achieving the reduction or elimination of traditional though illegal narcotics cultivation. UNFDAC has had such programs for some years in Burma and Thailand, although in both cases the programs are either of a pilot nature (Thailand) or at the early stages of application (Burma). The United States, State and AID, are supporting rural development/crop substitution programs in connection with agreed or prospective crop control actions by the governments of Pakistan, Peru, and Bolivia.

## BAHAMIAN COOPERATION ON NARCOTICS

Senator Chiles: One important way to control drug trafficking is to work with countries in the Caribbean basin that serve as conduits in the drug trade, either for the drugs themselves or for the profits generated by illegal drug trafficking.

The Bahamas now seems to have become a staging point for bringing cocaine and marijuana into Florida. All one has to do is look at the criminal complaints filed in the courts of South Florida to verify the extent to which smugglers are using the Bahamas as a conduit.

What is the status of the United States' international agreements with the Bahamas with respect to sharing information (e.g. tracking airplanes and ships, sharing information concerning financial transactions) which would assist in efforts to stop drug trafficking? What changes in current agreements, if any, would the State Department recommend to promote more effective cooperation?

Secretary Haig: There are no formal agreements between the United States and the Bahamas which regulate sharing information on vessels, but the U.S. Coast Guard and the Royal Bahamian Defence Force have for some time had a good informal system of cooperation, which appears to be functioning to the mutual advantage of both parties.

Limited cooperation exists between U.S. Customs and the Bahamian authorities, implemented on an ad hoc basis without any formal framework agreement. Recently, a new, also informal, arrangement is being tested whereby Bahamian authorities will provide flight plan information to U.S. authorities on selected private aircraft operations out of the Bahamas.

There are also no agreements currently in force between the United States and the Bahamas with respect to sharing information on drug-related financial transactions. The Departments of State and Justice have been attempting, unsuccessfully, for some time to interest the Bahamas in concluding a treaty on mutual assistance in criminal matters similar to that which is in force between the United States and Switzerland and to that which has been concluded but not yet come into force between the United States and Colombia.

## AGREEMENTS ON NARCOTICS WITH THE CAYMAN ISLANDS

Senator Chiles: The Cayman Islands is reputed to be an "off shore laundry", where drug traffickers are able to transfer profits out of the United States, and then bring them back again, to compete with legitimate businesses. Last year, Congress directed the Justice Department and the State Department to move quickly to negotiate financial information sharing agreements with the Cayman Islands and other offshore banking havens, so that financial records held overseas could be used to trace drug profits back to high level drug traffickers.

What is the status of those negotiations, and when can we expect to see these kinds of agreements take effect?

Secretary Haig: The Departments of State and Justice are actively exploring with governments in the Caribbean area where offshore banking havens exist the possibility of concluding agreements for sharing financial information relating to drug trafficking. U.S. efforts to obtain such information with respect to the Netherlands Antilles should be significantly enhanced upon the entry into force of the Treaty on Mutual Assistance in Criminal Matters recently concluded between the United States and the Netherlands, and made applicable to the Netherlands Antilles. Furthermore, the Government of Jamaica has agreed to conclude a similar treaty with the United States and negotiations are expected to resume shortly. Other than these two notable developments, no other negotiations or agreements in this area are currently in sight.

## FOREIGN ASSISTANCE CONDITIONALITY ON NARCOTICS

Senator Chiles: To what extent will the United States condition other aspects of its relations with such countries, including foreign assistance, on cooperation and progress in arriving at such agreements?

Secretary Haig: The Department will give full weight to the issue of narcotics control in formulating its policy toward these and other countries which play some role in drug trafficking to the United States. I cannot make a more concrete guarantee on policy formulation because of the many variables affecting U.S. interests in each bilateral relationship. But I, and other senior Department officials, are prepared to address any concerns you may have regarding our policies in more specific contexts.

## SUBCOMMITTEE RECESS

The subcommittee will stand in recess until 10 o'clock tomorrow morning when we are going to hear from Mr. Peter McPherson on the fiscal year 1983 budget request for AID.

Secretary **HAIG**. Thank you, Mr. Chairman.

Senator **KASTEN**. Thank you very much.

[Whereupon, at 12:10 p.m., Wednesday, March 10, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 11.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, MARCH 11, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 10:15 a.m., in room S–146, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and D'Amato.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### STATEMENT OF HON. M. PETER McPHERSON, ADMINISTRATOR

### OPERATING EXPENSES

Senator KASTEN. The subcommittee will come to order.

This morning our principal witness is Mr. M. Peter McPherson, Administrator of the Agency for International Development.

Mr. McPherson will provide the subcommittee with overview testimony on his Agency's programs, and specifically on the operating expenses of the Agency for International Development.

At a later date we will receive detailed testimony from other AID witnesses.

Mr. McPherson, we will insert your entire statement into the record, and ask that you summarize it at this time.

I might say for all of us it is going to be a confusing day. If we don't have another Senator here, I am going to have to adjourn for about 15 or 20 minutes, because it looks like the Senate will be in session. We will work through this the best we can.

Thank you very much.

### OPENING REMARKS OF M. PETER MCPHERSON

Mr. MCPHERSON. Thank you for giving us the opportunity to present our program. Frankly, I think it would probably be the best use of your time not to even go to the statement that I have submitted.

Over the past year we have had numerous conversations, and you know basically, I think, what we are trying to do. Let me just emphasize two or three points, and we can go into questions and I think probably we can get at the matters of most interest to you.

First of all, let me thank you, Mr. Chairman and the subcommittee members, for the kind of help you gave the administration and AID during the past year. It is a difficult situation and one we need to build on, at least, not having built for several years, and we appreciate it.

I would like to note the kind of interest that the President himself has shown in our assistance program, shown by his Cancun speech, his strong support of legislation, and close working relationship with this committee, and his state of the Union message. He continues to show a great deal of personal interest in the development of security assistance. I feel he has been very helpful to all of us by doing so.

Let me underline the interest the administration has in the Caribbean Basin. The CBI, with its trade, investment and aid thrust, is something that we consider very important. I personally have spent some time in recent months in El Salvador, and we continue to follow matters in Latin America and more recently in Central America and the Caribbean. It is my belief that this is an important program.

### PREPARED STATEMENT

Those are briefly my comments this morning, Mr. Chairman. As I say, I think probably the most productive way is to get any questions you might have.

I offer my prepared statement to be inserted in the record.

Senator KASTEN. It will be inserted in the record at this point.

[The statement follows:]

## PREPARED STATEMENT OF M. PETER MCPHERSON

### ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
### AND
### ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, and Members of the Subcommittee, it is a pleasure to have the opportunity to appear before you to discuss the I.D.C.A. and A.I.D. budget request for fiscal year 1983.

I am especially glad to make this request in the context of our enacted appropriation for the current year. Your leadership, Mr. Chairman, has helped to foster a new awareness of the importance of foreign economic assistance and the role it plays in U.S. foreign policy. We will continue to work closely with you and with members of your staff as we strive to further the progress made over the past year.

### GENERAL DISCUSSION

In his statements during the past year at Ottawa and Cancun, as well as in his speech last fall before the World Affairs Council in Philadelphia, President Reagan made clear his intention that U.S. leadership in the area of foreign economic assistance will continue to grow.

Our concern with assisting the development of countries of the Third World is based on a growing convergence of interests between them and the United States. There is, first, a commonality of security interests between ourselves and many developing countries. They are important for our national security, as we are important for theirs.

Major aid recipients are located in areas of strategic importance--in the Middle East, Caribbean and Central America, in the Pacific Basin, the Horn of Africa and Southwest Asia. Other AID recipients are important suppliers of energy and other raw materials essential to our economy. In addition, the local and regional defense efforts of developing countries contribute to international peace and security, and thus enhance our flexibility and capability to respond to problems on a worldwide basis.

Second, U.S. political interests and our continuing role of leadership in a market-oriented international economy can be substantially buttressed or hampered by the cooperation or hostility of developing countries. There are a variety of worldwide issues, from protecting the environment, controlling the illicit drug trade, maintaining a functioning international monetary system, and preventing nuclear proliferation on which the cooperation of developing countries is vital to an outcome consonant with our national interest.

Third, interdependence continues to be the overriding reality of international economic relations. When we and other donors provide substantial development assistance to stimulate agricultural productivity in developing countries, the pressures on our own supplies and prices are lessened. When our aid encourages policy reform conservation and development of alternative energy sources in the developing countries, energy-related problems of our own economy are eased. When our assistance succeeds in helping slow down excessive population growth, it reduces future pressure on scarce economic resources, and it becomes less likely that a recipient country will require our assistance at some future time. When the U.S. and multilateral institutions help countries through difficult balance of payments crises, we preserve our trading partnerships and private-sector financial relationships. When development assistance is used to promote sound policies and stimulate economic growth in poor countries, we hasten the day when these countries can participate fully in the international economy and become strong and growing markets for U.S. goods and services.

Fourth, the humanitarian character of our assistance programs, a thrust that makes this a unique government agency, is evident throughout our FY 1983 request. Our focus continues to be on the basic needs of people in developing countries. We will continue to use funds in our economic assistance programs administered by A.I.D., to the maximum extent possible, to address the major problems confronting the recipient countries -- interrelated problems of food scarcity, excessive population growth, inadequate infrastructure, depletion of natural resources and dwindling energy supplies. The Development Assistance & Economic Support Fund, together with the P.L. 480 program and refugee assistance program, play an important role in assisting the poor majority.

Our objective in development assistance is to pursue a balance between the needs of the present and the future. Current urgent needs must be dealt with, and we shall continue to help those individuals to address these needs. But development is first and foremost long-term. In the long-term, foreign trade and private financial flows will represent the major source of economic growth for most developing countries. However, we can assist and support the developing countries in establishing sound economic policies which will affect their economic performance and use our assistance to help them help themselves in preparing for the future.

Long-term development depends, to a large degree, on the nature of the policies followed by the developing countries themselves. By concentrating development assistance in those countries willing to pursue more open economies, and by seeking policy change in others, we intend to encourage adoption and implementation of policies conducive to indigenous private enterprise. We will thus be supporting of the economic growth and social development which are necessary to demonstrate that the free market is an efficient, effective vehicle offering the best hope of meeting the basic needs of the poor majority.

Our agency-wide private-sector thrust mobilizes U.S. private institutions -- academic and agricultural, business and volunteer services -- in support of our assistance strategy. We seek mechanisms to share with developing countries the science, technology, and management techniques of the U.S. private sector. Perhaps most important, our bilateral development assistance program will be increasingly a program of institutional development, a program essential to removing the roadblocks to technological innovation and productivity improvements.

Finally, we will work with the private sectors in the U.S. and the developing countries to devise measures that could lead to greater direct private investment and private sector participation in the development process. Included will be developmentally oriented private sector projects, and advisory assistance to encourage open host country investment policies, investment institutions and information.

Despite the progress I noted earlier, the problems of the Third World remain substantial. Notwithstanding success in increasing food production by introducing improved technologies and removing disincentives from the food production system, the ability to provide adequate food for all citizens remains a major concern for many of the developing countries. Deforestation and attendant soil erosion has not only reduced fuel supplies, but has also reduced the amount of land suitable for farming. Excessive population growth continues to inhibit our progress in solving development problems. Lack of adequate health facilities and educational services not only mean a greater incidence of disease and illiteracy, but also further stifles developing nations' productive capacity.

The magnitude of development problems is such that we cannot rely solely, or even primarily, upon official economic assistance to solve them. We must adopt a coordinated approach embodying several mechanisms -- greater private sector involvement, more emphasis upon technical assistance and institutional development, and more careful targeting of our resources to those countries which have policies consonant with sound and broadly-based economic development.

## FY 1983 BUDGET REQUEST

The budget request for FY 1983 reflects the Administration's continued concern with striking a balance between the need to limit the growth of Federal spending and the need to provide adequate resources and incentives to meet our important foreign policy and development objectives.

Let me turn first to the budget request for A.I.D. The economic assistance budget request represents, in total, a small increase over the FY 1982 enacted appropriation. It reflects increased attention to the initiatives we began last year, particularly that of stimulating greater involvement of the private sector in our development efforts.

Our FY 1983 budget reflects particular attention to effective targeting of limited foreign assistance resources. Country and regional activities have been reviewed carefully to ensure that proposed programs serve U.S. foreign policy and development objectives. The planned program in functional areas is concentrated in those activities where the United States has particular expertise: food production, eduction and training, energy, population and health.

For the FY 1983 bilateral economic assistance program A.I.D. requests an appropriation of $4.7 billion including $1.8 billion for Development Assistance and $2.9 billion for the Economic Support Fund. Development Assistance includes funding for functional Development Assistance programs, the Sahel Development Program, American Schools and Hospitals Abroad, International Disaster Assistance, Operating Expenses, and the Foreign Service Retirement Fund.

Approximately $1.3 billion of the amount requested for Development Assistance is for the five authorized functional accounts. Of the amount allocated directly to country programs, 86% would go to "low income" countries -- those with an annual per capita income below $730.

For the Agriculture, Rural Development and Nutrition program, we are requesting an appropriation of $700 million. This account remains the largest portion of the request for Functional Development Assistance, in response to the problem of inadequate food supply in the developing world. As I indicated, despite impressive gains in food production in some developing countries, many remain unable to meet their minimum nutritional needs.

The A.I.D. rural development program has three principal objectives: (i) to help increase and sustain the productivity and income of small farmers; (ii) to assist in the creation of employment opportunities for the rural poor; and (iii) to help improve access to, and utilization of, food.

To achieve these objectives, A.I.D.'s program stresses the removal of economic policies inhibiting broadly based growth, the development of private and public sector capacity to foster increased agricultural production and employment expansion, the development and use of improved agricultural technologies, and the improvement of human resources, rural infrastructure and the natural resource base.

More than 40% of the request would go to Asia, the region with the largest share of the world's most seriously malnourished, where government policy reforms in countries such as Bangladesh and Indonesia are helping to increase host-country food production. Another 21% would go to Africa, where policy reforms are also underway in some countries, to help reverse the long-term trend of declining per capita food production.

Funds from this account also would be used to help developing countries address the problem of accelerating deforestation, which is threatening many areas in Africa, the Caribbean Basin, and Asia, resulting in critical shortages of fuelwood and causing extensive environmental degradation.

As in the past, a substantial portion of the funds requested would finance activities specified under Title XII of the Foreign Assistance Act, much of which is channeled through U.S. land-grant universities and other institutions eligible under that Title.

For Population, we request an FY 1983 appropriation of $201 million. Excessive population growth in the developing countries is one of the primary obstacles to the expansion of per capita food production, reduction of malnutrition and chronic disease, and LDC conservation of dwindling non-renewable resources. Despite recent encouraging reductions in birth rates in several developing countries, population in many others continues to grow at unprecedented rates.
The slight reduction in FY 1983 population budget below FY 1982 does not indicate a reduced priority for population planning. Rather, the slight drop is principally the result of a one-time increase in the program in FY 1982 to make up for short-falls in the FY 1981 programs in Asia.

About 40% of the funds are for country programs, with the largest portion going to Asia, where several major national family planning programs are well underway. The balance of the request is for A.I.D.'s centrally funded programs to support family-planning activities throughout the world, information, and commodities, plus related policy initiatives and applied research.

A.I.D.'s programs emphasize the provision of voluntary family planning services for the rural poor through paramedical workers and the private sector. I wish to stress that the program does not fund or in any way encourage abortions, or research on this topic. In response to Section 104(d) of the

Foreign Assistance Act, our population activities stress the importance of the links between family planning and the impact of programs in agriculture, rural development, health and education.

We are requesting an appropriation of $114.1 million for Health activities in FY 1983. Approximately 37% of health funds will go to Africa, reflecting the enormous need for basic health services in that region. Much of our assistance to Africa will support rural water and sanitation programs and immunization campaigns to combat the diseases of early childhood, as well as tropical diseases such as malaria and schistosomiasis, which are major causes of death and disability in the region. Primary health care programs are well under way in Asia and Latin America. In these regions, our focus is on expanding access to basic health services. In FY 1983, we will be giving increased attention to programs in health planning and management, operations research, and in the transfer of proven health technologies.

Our request for Education and Human Resources Development totals $116.4 million. The education situation in developing countries remains critical despite sizable increases in their budgetary allocations to education and significant gains in school enrollments over the past several decades. Most countries still have severe shortages of trained manpower available to administer development and other programs effectively. One out of every four school-age children in LDCs does not even enter primary school, and only half of those who enter will stay in school long enough to acquire basic skills. More than one-third of the 2.1 billion adults in the developing world are illiterate.

While the need for resources to assist the developing countries with their educational requirements far exceeds the availability of funds, our program provides assistance in selected areas where the United States has recognized expertise. The FY 1983 program reflects the Administration's concern with increasing attention to manpower development and training, and the management capacities of educational institutions. The largest portion of our planned program is for training of administrators, managers, and scientific personnel to help recipient countries build the indigenous capacity to carry out their own development efforts. The program also provides continued assistance with the improvement and expansion of basic primary education for children and with vocational and technical training, support for labor organizations, and related education activities.

More than one-third of the request would be allocated to Latin America, for manpower development activities and continued efforts to help reduce that region's high primary school dropout rates. About one-fourth would go to Africa where the acute shortage of trained administrators remains a major obstacle to development.

For the Energy, Private Voluntary Organizations, and Selected Development Activities account, we are requesting authorization and appropriation of $166.8 million for FY 1983, including $10 million for activities in the Science and Technology program also authorized under this account.
The increase in the Section 106 account reflects our intention to fund several very high-priority activities aimed at a number of development problems, including growing demand for energy, environment and natural resources problems such as loss of agricultural land and water pollution, growing unemployment and problems associated with rapid urban growth.

As I have already pointed out, the planned activities place high priority on mobilizing greater involvement of the private sector -- both U.S. and LDC -- in development, including greater reliance on private and voluntary organizations. Approximately one-third of the request would be used for private enterprise activities. half of which would go to Latin

America for such activities as promotion of cooperative banking, small business development and technology transfer. More than $20 million would go to the new Private Enterprise Bureau for investment packaging, technical assistance, and related activities.

The request also includes substantial funding for energy-related initiatives (such as energy management and research on alternative energy sources) and for support of U.S. private and voluntary organizations.

For programs of scientific and technological cooperation, we are requesting $10 million for FY 1983 within the amount proposed for Section 106, under which such activities are authorized for FY 1983. The request includes funding for small competitive grants to stimulate innovative research approaches to development problems, and to build indigenous science and technology capacity in the developing countries.

For the Sahel Development Program, we are requesting an FY 1983 appropriation of $93.8 million to fund the sixth year of U.S. support of a multilateral effort to help drought-ravaged West African countries achieve greater regional self-sufficiency in food production and general self-sustaining development. In response to past problems, A.I.D. is taking a number of steps to improve financial management of the program, including measures to assure better control of funds at the project level and to strengthen host-country financial and program management.

For American Schools and Hospitals Abroad, we are requesting $7.5 million for FY 1983 to continue support of overseas U.S. schools, hospitals and libraries which serve as demonstration centers for American ideas and practices in education and medicine. We plan to continue to give emphasis to geographic dispersion of the program, with special priority to institutions in less developed countries.

We are requesting $25 million for FY 1983 to provide emergency assistance to countries struck by natural disasters such as floods, hurricanes and earthquakes, and by war, civil disturbances and other natural or manmade catastrophes. The program also supports assistance in disaster prediction and preparedness.

The FY 1983 request for the Economic Support Fund is $2.9 billion for economic assistance in support of critical U.S. foreign policy interests in areas of strategic concern to the United States. More than one-half of the request, a total of $1.6 billion is for the Middle East, principally for Egypt and Israel, to support continued U.S. efforts to bring peace to the region.

The ESF request also includes a total of $326 million for strategically important countries in Central America and the Caribbean Basin, including $105 million to continue support for the government in El Salvador.

$350 million will go to Turkey, as part of a multi-donor effort to help that country deal with its balance-of-payments problems. A total of $325 million is allocated to countries and regional programs in Africa; and $234 million is provided to Asian countries, of which $175 million is for Pakistan.

In addition, the request includes $75 million for a high-priority ESF Special Requirements Fund, to permit quick U.S. response to unforeseen needs for economic assistance instrategic areas. $50 million of this amount is earmarked for the Caribbean Basin and is included in the $326 million.

I would like to turn now to the request for other programs in which I.D.C.A. is involved.

P.L. 480

Food aid remains a principal element of our foreign economic assistance program. We use food to address the problems of agricultural development in LDCs (production and policy reform) and health and malnutrition, thereby increasing productivity to help break the vicious cycle of low production and extreme poverty. In the past year, we have increased our efforts to integrate P.L. 480 programs more fully with our overall country strategies and programs. We hope through our efforts not only to provide food to those who are in need, but also to teach them to help themselves to meet future food requirements.

The FY 1983 P.L. 480 request totals $1.5 billion for all titles. The slight increase in the P.L. 480 dollar level from FY 1982 to FY 1983 must be viewed in context. The total FY 1983 P.L. 480 program level increased by $28 million or 2% over FY 1982 levels, although when discounted for inflation, it will provide for the shipment of approximately 175,000 less tons of food than that shipped in FY 1982 due in part to projected higher commodity prices.

The Title I request is $859 million, including $91.6 million to meet the cost of shipping at least 50% of P.L. 480 commodities on U.S. flag vessels. FY 1983 funds will provide for the shipment of approximately 3.25 million metric tons of food. We expect to have Title III Food for Development Programs totaling $146 million in FY 1983 (18% of total country allocations).

For FY 1983, the Title II request is $650 million, including $250.0 million for ocean transport and overland delivery to land-locked countries. We will provide 1.2 million metric tons of food for non-emergency programs of Voluntary Agencies and the World Food Program, and 400,000 metric tons for emergency/refugee requirements. This total tonnage is less than FY 1982 principally due to reduced estimates of emergency/refugee needs. In FY 1983, approximately 890,000 tons of Title II food, valued at $243.5 million, will be donated to Voluntary Agencies and 314,000 tons of food, at a cost of $75 million, will be allocated to fulfill our pledge to the World Food Program.

Overseas Private Investment Corporation

The Administration is requesting authority that would permit O.P.I.C. to issue up to $100 million in loan guarantees and $10 million in direct loans in FY 1983. These funds' guarantee authority will be used with O.P.I.C.'s insuranceauthority, to finance private investment projects in developing countries, with special emphasis on projects in the Caribbean Basin. O.P.I.C. plays an invaluable role in the foreign assistance program because it facilitates the participation by private American investors in the economic and social development of Third World countries.

Voluntary Contributions to International Organizations and Programs

The budget request for voluntary contributions to international organizations and programs totals $173.25 million. This request supports voluntarily-funded development and humanitarian assistance programs of the United Nations (UN) and the Organization of American States (OAS). More than three-quarters of the requested funds are for two major UN programs - the UN Development Program and UNICEF. Other significant but more specialized assistance funded by this account includes U.S. contributions to the International Atomic Energy Agency, the UN Capital Development Fund, and the assistance programs of the Organization of American States.

Trade & Development Program

The Fiscal Year 1983 request for the Trade and Development Program (TDP) totals $10.5 million. TDP plays a unique role in fostering the development of middle income countries while promoting trade opportunities for the U.S. and generating revenue from the sale of technology, goods and services. We plan to target TDP's funds increasingly at the critical stage of the planning process where U.S. firms competing with foreign firms are in the final stages of bidding for feasibility studies for large-scale projects. We are instituting procedures to seek reimbursement from U.S. firms that perform feasibility studies on projects funded by TDP and are subsequently awarded contracts.

International Fund for Agricultural Development

The Fiscal Year 1983 request for the International Fund for Agricultural Development (IFAD) totals $65.4 million. This amount represents one installment of the $180 million U.S. contribution authorized by the Congress. The Administration supports IFAD's objective; that is, to assist the developing countries in increasing food and agricultural production in support of the broader goal of reducing hunger and malnutrition. Concern over the level of contribution by OPEC members and attempts to expand the Fund's permanent staff, which resulted in denial of an appropriation for FY 1982, has been resolved with an agreement to freeze permanent staff positions and a replenishment agreement to increase OPEC members' contributions to $450 million.

Multilateral Development Banks

The budget request for multilateral development banks (MDBs) reflects the Administration's commitment to honor cost-sharing arrangements which have already been negotiated internationally. For all institutions, except one, arrangements had already been negotiated prior to 1981 and the budget request provides funds to meet these commitments.

For the World Bank, the request provides the final $16.3 million in arrearages from the 1977 Special Capital Increase and the second installment, $109.7 million, of the U.S. paid-in share of the Bank's General Capital Increase. For the International Development Association, the FY 1983 request is $945 million. For the Inter-American Development Bank, our request is $62.4 million for the capital window, completing U.S. financing under the last capital increase, and $221.7 million in soft-window financing for the IDB's fund for special operations. The request for the Asian Development Bank and Fund includes $248 thousand in arrears to the hard window and $131.6 million for the last installment of ADF III and partial arrearages remaining from the prior replenishment.

Only the $50 million request for the African Development Fund represents a newly negotiated MDB contribution. Earlier this month, the U.S. reached agreement with other donors that subject to obtaining legislative approval it would provide $150 million over FY 1983 to 1985 to the third replenishment of this Fund, compared to the $125 million the U.S. supplied under the prior replenishment. The administration is requesting no appropriations for the African Development Bank, pending that institution's formal opening to non-regional membership.

## MANAGEMENT INITIATIVES

Mr. Chairman, I would like to return to the role of A.I.D. Administrator and give a brief summary of my overall management objectives for A.I.D.: what we set out to do last year, what we have accomplished and what we plan to accomplish in Fiscal Year 1983.

Implementation improvement began last spring with a top management analysis of A.I.D. projects obligated in prior years. Special attention was given to troubled projects, particularly those not being implemented in a timely fashion.

This review resulted in the total FY 1981 deobligation of $74 million. Through this exercise, we sensitized A.I.D. management at all levels to the need for rigorous portfolio analysis as a continuing process. We made it clear by this action that we are willing to make hard decisions when our projects are not working. On a semiannual basis, it is now expected that operating bureaus will refer troubled projects to responsible Washington staff or to Missions for corrective action. This continuing process will produce either deobligations or corrective action, sometimes requiring radical restructuring of individual projects.

One factor previously inhibiting performance in the field was the limited ability of Assistant Administrators and Mission Directors to act on their own authority. This has been changed. We have increased the delegation of project authority to the Assistant Administrators in Washington, and from them to the Mission Directors, from $10 million to $20 million. We have selectvely authorized the Missions to approve projects with a longer life, doubling their authority to approve projects from five-years duration to ten years. On a selective basis, we have also increased the Missions' authority for operational program grants to U.S. private voluntary organizations from $0.5 million to $1 million. Through these expanded delegations of authority, we expect to slash considerable time and cost from the contracting and project-approval processes.

The second area of administrative streamlining at A.I.D. was our program of reductions in personnel. We made every effort to implement the reduction program without crippling our operational capacity overseas. Since the bulk of our programsare actually implemented in the field, we felt that it was important not to impair our ability to carry out our responsibilities. We have been able to meet our lower personnel ceilings without reducing either flexibility or capacity in our country Missions.

Also, we were determined to reduce redundancy and inefficient use of Washington personnel. For instance, in the 10% reduction in headquarters, we eliminated numerous duplicative policy and contract review procedures conducted by the various bureaus. The reductions forced limited reorganizations within the headquarters units, the effect of which was to reduce the shuffling of paper and layers of review within those bureaus.

We are also carefully examining a number of different functions both in the field and in Washington which might be contracted out. To the extent that contracting out is cost-effective, we would hope to achieve both lower personnel levels and the attendant lower operating costs. Contracting out is not a panacea, but it is an important element of flexibility.

We have achieved a substantial personnel decrease in Washington without utilizing the "reduction-in-force" (RIF) mechanism. I am committed to strong management, and I intend to take all necessary steps to avoid the management problems a RIF creates. To achieve the reduction through attrition, we have instituted a selective Washington hiring freeze, and, began a replacement program to put occupants of eliminated positions into vacancies in continuing positions. We will complete this program later this summer.

At the same time, we are maintaining the staffing levels for the Inspector General's program at a time when the Agency is reducing its overall personnel levels. In fact, our Inspector General program was exempted from the sharp personnel reductions in on-board strength imposed elsewhere in Washington. Currently, only the Inspector General's office is proceeding with normal hiring.

## OPERATING EXPENSES

AID is requesting $376.0 million in new budget authority to fund its FY 1983 operating expenses. This represents a $45.0 million increase over the FY 1982 appropriation of $331.0 million. However, it should be noted that $9 million of this increase is to cover the FY 1983 cost of the October 1981 pay raise and the January 1982 lifting of the cap on salaries of federal employees, costs which are not included in the FY 1982 appropriation of $331.0 million. In spite of an overall decrease in personnel from FY 1982 to FY 1983 of 100 workyears, FY 1983 salary and benefit costs will remain at about the same level as the FY 1982 levels adjusted for the pay raises which took effect this year. This reflects full-year funding in FY

1983 of the FY 1982 pay increase and various provisions of the Foreign Service Act of 1980.

The Agency has taken several steps in the past year, and plans further actions in the future, to minimize the impact on the operating expense budget of rapidly escalating prices overseas and in Washington. The use of the Section 636(c) authority in the FAA to purchase residences and office buildings in past years is beginning to pay off. Funding required for rents and utilities overseas is projected to increase only 6 percent from FY 1982 to FY 1983. While no funds are available in FY 1982 to cover Section 636(c) acquisitions, we are requesting $3.0 million in FY 1983 so that we may continue this trend in reducing rental payments in future years. Unfortunately, this avenue of relief is not available for our Washington operations.

As a result of our increased review and analysis of Foreign Affairs Administrative Support (FAAS) budgets and bills received from the Department of State, sharp reductions in this element of costs have been possible. We project a $3.0 million increase in FAAS costs in FY 1983, for a level of $23.0 million. An increase in funding for training of the Agency's staff is being requested in FY 1983. Training is essential if we are to increase the efficiency and effectiveness of our personnel, especially increased language training being given to personnel scheduled for overseas assignments. While language training is the largest single category in our training budget, other types of training are equally important such as that relating to project design and implementation, management (both project and non-project), and specialized training in areas such as agriculture, energy, and population.

AID's budget request for 1983 is the minimum amount necessary to carry out the operations of the Agency. However, it must be emphasized that the inflationary effects of doing business overseas accounts for almost three-fourths of the increase included in this request. For example, the cost of moving employees, family members, their household effects and related office supplies will increase $2 million in FY 1983. Nevertheless, the Agency will continue to maintain its scrutiny and management of the operating expense budget to ensure that it represents only the minimum essential requirements of the Agency.

Thank you, Mr. Chairman, I would be happy to respond to any questions you or your colleagues might have.

### TRANSFER AUTHORITY

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. I don't have a statement.

Senator KASTEN. There has been some controversy regarding the transfer authority. It is clear that Congress intended that this authority be used only in unforeseen circumstances, and certainly not to change any congressional mandates.

Before asking my questions, however, I want to compliment your Agency and your people for consulting on this matter. This consultation led to your reconsideration, I believe, and avoided what might have been a serious problem.

Can we get your assurance that you will use this transfer authority only in cases which arise out of unforeseen circumstances, and of course within the law as prescribed by the appropriation legislation in exchange for, frankly, the subcommittee allowing the Agency to attain such transfer authority?

Mr. MCPHERSON. Well, I guess I would like to think carefully about the problem here. I am a lawyer, and I think I care specifically about the words, but certainly pursuant to our discussions in recent weeks which were productive, and which I thought were very helpful to us, I view that transfer authority as being used in an unusual kind of situation that we would proceed to handle in careful consultation. We certainly would not view it as a day-to-day management authority to get around congressional directives.

### ABORTION RELATED RESEARCH

Senator KASTEN. We are still getting expressions of concern from different groups of people that AID funding is being used in some cases, they say, directly, and other cases indirectly, to support abortion related research, activities, and promotion.

The argument is that funds which AID provides to certain organizations frees other money which they then use for these abortion related activities. Could you discuss this?

I know we discussed it briefly before, but what have you done to try to stop this and to limit the use of AID funds for abortion related activities?

Mr. McPHERSON. Senator, this has been a concern of mine, as you know, from the very beginning. In fact, before I was even confirmed I made the statement that I intended as Administrator to cut off the funds that were related to abortion research.

There was an amendment to the law a couple of years ago that prohibited the use of funds for abortions, but we were doing some abortion related research. Shortly after becoming Administrator I then gave the directive that I wanted to have those grants phased out, not renewed and terminated.

## REPORT ON TERMINATION OF GRANTS

Just recently I received a detailed report on that termination of those grants and was assured—and I would be more than happy to provide the committee with that—of the termination of all of those activities.

[The statement follows:]

## THE DISCONTINUANCE OF A.I.D. SUPPORT FOR RESEARCH ON METHODS OF ABORTION

Since 1974, in accordance with authorizing legislation, the Agency for International Development has not provided support for abortion services and a number of other abortion related activities, such as the provision of abortion equipment, or the motivation of persons to practice abortion. The Agency, however, had continued to fund research on methods of abortion until January, 1981 when this Administration decided to discontinue such funding. This report describes actions taken in the last year and a half to discontinue support for research on methods of abortion. The actions have been consistent with directions laid out in early 1981 and with Section 302(b) of the International Security and Development Cooperation Act of 1981 (enacted December 29, 1981) which prohibits development assistance funds from being used to pay for biomedical research which relates to methods of, or the performance of, abortions or involuntary sterilization as means of family planning.

The following projects have been affected:

1. *Johns Hopkins University*

The project entitled "Simplified Techniques of Fertility Control" had $444,000 for ongoing research on improved methods of abortion in early 1981. The Agency has obligated no further funds for the project since FY 80 and the abortion research activity was discontinued in September 1981.

2. *Program of Applied Research in Fertility Regulation of Northwestern University (PARFR)*

Under this project there were several subprojects totalling $197,675 with ongoing abortion method research in early 1981. All such projects had expired by the end of calendar 1981 and no further abortion method research projects have been initiated.

3. *International Fertility Research Program (IFRP)*

This project had $7,267 of support for research on methods of abortion ongoing in early 1981. All such activities had expired by September 1981. No further abortion method research has been undertaken.

In all of the projects described above, funds for projects ongoing in early 1981 had actually been obligated in FY 1980 and previous years.

4. *World Health Organization (WHO) Research Program*

Consistent with then existing authorizing legislation the Agency contributed $3 million in FY 81 to the WHO program. A small portion of the WHO program (approximately three percent) goes to research on methods of induced abortion. Prior to committing the $3 million to the WHO program, however, the Agency received written assurance from WHO officials that funds provided by A.I.D. would not be used for research on improved methods for the performance of abortion. The Agency is statutorily prohibited from providing FY 1982 funds to support the WHO program, and has no intention of seeking to alter this prohibition.

In addition to the foregoing actions, the Agency has adopted specific language to be incorporated in all relevant grants, contracts, etc., as follows:

(a) No funds made available under this agreement will be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning. Epidemiologic or descriptive research to assess the incidence, extent or consequences of abortion is not precluded.

(b) The Grantee shall insert paragraphs (a) and (b) of this provision in all subgrants, subcontracts, purchase orders, and any other subordinate agreements hereunder.

### AID MONEY SUBSTITUTE

Mr. McPHERSON. Now, the question of whether or not AID money was substituted for other money is one that obviously has been of concern to me, as well. We have provided a very careful accounting to be sure that our money was used for what we said it was to be used for. I think within those parameters we have been quite successful in being certain that our money was used properly.

Senator KASTEN. Let me first indicate that I find it particularly gratifying, and my staff does, dealing with people who are professionally responsive, and I want to compliment you in that regard.

Mr. McPHERSON. Thank you. We are glad to work with you on that.

### AMERICAN SCHOOLS AND HOSPITALS ABROAD

Senator D'AMATO. I would like to make notice that there is a very disturbing trend which has appeared in the distribution of aid for American hospitals and schools abroad. I am referring to various levels and reduction of those levels over a period of years.

I recognize that 1970 may not be an appropriate year to pick because you had very extraordinary events, but in 1970 94.7 percent of the American schools and hospitals funds went to the Near East region. In 1975 that was reduced to approximately 53 percent, and it was cut about in half.

Now we see that distribution is further reduced in a percentage of ASHA money which has dropped to below 50, down to 43.6. The answer is we had to do this last year. We had a proposal of $8 million initially and this committee went to $12 million and Congress went up to $20 million.

We see the same kind of thing this year, $7,500,000 down from $20 million. Now I am saying what kind of signals are we sending out? We think it is counterproductive, and we note there were 58 applicants to ASHA for $85 million of American aid, and 38 of these in the Near East. The largest applicant pool, with 9 of the 26 grants for 1981 went to the Near East.

It is not a question that these aren't programs that have paid handsome dividends in terms of humanitarian effort and educational efforts and in terms of building relationships between the United States and its allies and those who are in need; and they do just the kind of things we want.

I suggest that although the $1.593 million the President has asked for may be somewhat below the targeted activity in 1982 the fact of the matter remains it is quite a substantial sum. I don't intend to support more money going down to other areas, even to Central America, if we are going to start to make these nickel and dime cuts in this area. I am not going to vote for it, and I am not going to support massive shifts of our allocations if we are going to allow that.

You have seen productivity of these programs, and what is your attitude with regard to this? Do you believe that we can sustain a cut from $20 million down to $7,500,000? And if this is bargaining I don't like it.

Mr. McPHERSON. Well, Senator, let me try to reply.

Senator D'AMATO. What would be the effect? I gave you my speech, and now let me ask you, what is the effect of cutting $20 million down to $7,500,000? You will virtually eliminate some of those very effective programs, many programs that the Congress has been very interested in would have to be cut back.

Mr. McPHERSON. There is no question about that.

Senator D'AMATO. And eliminated.

Mr. McPHERSON. Probably in some cases, yes.

Senator D'AMATO. And hospitals?

Mr. McPHERSON. Well, you get some.

Senator D'AMATO. And schools?

Mr. McPHERSON. There is no question that some of the financing for schools would have to be cut back.

Senator D'AMATO. And worthwhile projects in your opinion?

Mr. McPHERSON. Frankly, it seems to me that the financing often would end up going for almost middle-class hospital care and education, in contrast to building or trying to extend the primary health care in a poor country in Africa. That is the bottom line, and I would rather put my money into sending primary help.

Those are honestly the facts, as opposed to the kind which is often near middle-class hospital care. Now the facts are that every year the Congress comes back and tells us that we ought to spend $20 million, and we get that money, and we try our darnedest to spend it carefully and wisely. We try to consult carefully with Congress on how that might be most appropriately spent. The man in charge of the program is David Santos. Frankly, I would like to have them come down and review with you where our 1982 programs may be going.

We have an advisory committee that makes recommendations for us, and they have done that, and in the next few days I expect to review their recommendations.

Senator KASTEN. Could I interrupt for just a minute? Could you continue the hearing, and when you are finished with questions, just recess. I will be back in about 15 minutes.

## CHALLENGE CONCEPT

Mr. McPHERSON. There are a lot of things that we can do. We try to do it in this way: One of the concepts that I am trying to do is have a challenge concept.

Senator D'AMATO. Let me get into this a little. These are not middle-class, these schools, they do have some facilities with hot and cold water, and they have heat and when you compare them with jungle life in Africa, that is fine. But on the bottom line I think we do a great disservice to set up bargaining then, where people have to come in the last minute and say, "My God, you are going to take us on an appropriation level which hasn't been increased in the last 5 years."

Obviously as a result of inflation it has been reduced in half and now you are going to say that we are going to cut that in half, or we are going to come to a position where we say that the needs are so great that we are not going to give you anything. I am not going to debate with you about what is middle-class or not middle-class, but that has historically been an important point in our relationships and particularly in the Middle East which is volatile, and we are going to talk about diplomacy.

If you want to create the impression that we are not interested in the countries that are involved, that is certainly a great way to do that. I doubt that any economic saving can be justified in terms of the impressions that we create. It is just very, very damaging.

Mr. MCPHERSON. Let me tell you, if you review the kind of things that we are doing and talking about and doing for next year, you will find them attractive or at least reasonably so, and productive. I find, frankly, that I really have to be a hard-nosed negotiator with some of these colleges and schools. They come in and tell me that the sky is going to fall in, and then I look at the amount of tuition they are collecting, and I say, "It is not the U.S. taxpayer's responsibility to do this, and why aren't you demanding more tuition?"

I have gone through two different schools since I have had this job, where we demanded a financial plan, and we find the schools have no financial plan set up.

### FINANCIAL PLAN REQUIREMENTS

Senator D'AMATO. That $20 million doesn't even begin to meet the needs in that particular area. It doesn't begin to meet the needs. So if you judiciously spend that money, no one here has any problem with that. But I do have a very real problem with taking the level of $20 million, and you are mixing two cases up, let me tell you, and let me suggest once again, no one here at this time is suggesting that you should give money to a particular institution that doesn't have an economic plan.

You say they come in and we ask them for a plan, and you are absolutely right. That is one problem. Reducing $20 million to $7,500,000 is a totally different thing. I didn't suggest that you lower your standards. You are not suggesting to me that you have three times as much in the way of resources to meet all of those applicants and all of the worthy needs in that area, are you?

In 1962 you had three times as much money as you needed and you could have gotten away with $7,500,000. You are not really suggesting that, are you? As a practical matter, we are going to increase this, and we are absolutely going to bring the rate back up to the $20 million, and you know that. Then when we do this, we are liable to take the funds and cut them from something that the administration wants in some other area. Isn't that counterproductive?

What I am suggesting to you is that we are going to put that $12,500,000 back, and it is going to have to come from some place.

One of the problems we run into then is one of the areas that you might need or think is important and would be subject to a cut.

Mr. McPherson. I submit that if the administration came in with $20 million, it might well end up that we had $40 million in that basket, and that would be that much more out of primary health care systems or other vital programs in Africa. But we lose, to be honest, just to lay it on the table.

Senator D'Amato. You mean this is a negotiating process?

Mr. McPherson. As a practical matter.

Senator D'Amato. As long as you are going to have to look for another $12 million——

Mr. McPherson. When you look at the amount of money we put into Egypt and Israel in economic assistance, and at the same time places like the University of Cairo are coming to talk to us for programs like this, and various Israeli schools come to us, I have competing requirements of trying to establish the situation in Sudan, of trying to keep the economic growth in Honduras moving.

Senator D'Amato. How many tens of millions of dollars did we put into Sudan, over and above what we put in in prior years? It is tens of millions, and this committee has appropriated it.

Mr. McPherson. You did a nice job, and we appreciate it.

Senator D'Amato. Don't continue to come back to this one area because you will not have the sympathy of at least one Senator.

Mr. McPherson. I need your sympathy, Senator, and I need to respond accordingly.

Senator D'Amato. I am just suggesting in the preparation of this kind of document that it is a bargaining technique after awhile, and it is old hat. Then we are going to have to find $12 million because we are not going to fund in that area. Other areas are increasing, and you are not going to find much sympathy I think for all of these areas.

Let me turn to another question, and you have defended that point very adequately and were I in your position I probably would not have been able to do nearly as capable a job, in the light of the facts as they exist.

One of the things I think the United States responds to quite generously was to the terrible tragedy that took place with one of our NATO allies. I am talking about Italy and the earthquake and the disaster in that region.

## ITALIAN EARTHQUAKE RELIEF

Sometimes people don't know, the citizens of the United States fail to recognize the tremendous contribution that Italy has given to the United States and the NATO; with the strategic bases; with its constant support in that area; it is something that we have been remiss in not stressing, and something that the Italian Government feels quite upset about in the terms of being viewed as some kind of second-class partner as opposed to someone who is vital.

We responded quite generously in the appropriation of $50 million, and then last year we extended it, and that was for relief and reconstruction. I am impressed at the manner in which those funds were administered and in terms of the schools that are under construction. We earmarked $10 million of the international disaster assistance fund for that purpose, of which $8 million was categorized for outright grants and $2 million to be used for matching funds, so that we could leverage that up to $4 million.

I would be very interested in hearing from you how that money is being spent and where we are at this particular juncture, and if in your opinion assistance of the same form will be required.

Mr. McPHERSON. First of all let me agree with you, that the strong and good alliance that we had with Italy is one that is not appreciated sufficiently. For example, I don't think that most Americans understand the austerity of the time in Italy; that Italy is proposing to increase its defense spending by 3 percent or more, and that is not like everyone else we are working with on this defense expenditure question. We have, as you indicated, a $46.9 million pipeline and 12 schools are being built and those seem to be coming along very nicely. The $10 million earmark of last year for fiscal year 1982, the disaster assistance program, has $2 million for PVO's. The remaining $8 million was the primary focus of your question, and we are sorting through how we might be able best to use that money. I will be getting recommendations from our AID representative in Italy, and from the Near East Bureau on how we can do that.

Senator D'AMATO. You suggest we be in contact with those officials?

Mr. McPHERSON. We will be in touch with you when we have some concrete recommendations.

### LEVERAGE OF FUNDS

Senator D'AMATO. I am getting quite a bit in the way of inquiries in terms of those funds. What is taking place to see to it that they are leveraged, and I very much appreciate the importance of that.

Mr. McPHERSON. I wonder if we can leverage them. I am not aware of how much leverage we have done with that $2 million last year.

Senator D'AMATO. Well, the $2 million was what we looked to have matching funds for, and the $8 million with direct grants. I am not talking about the $3 million left over from the $50 million, of which some $40 odd million was used for schools, but what I would like to know is where are we in terms of that $2 million and what about that $8 million and are we working with organizations. You have some sources that do have the amount to go on out and raise money, such as the Catholic Relief Services, and Bishop Roderick in New York is very much a part of that. I think that we should really take advantage of that kind of thing, and that is why we broke it down. Instead of just asking for outright grants, we should get the private sector more forthcoming in this particular area.

Mr. McPHERSON. We are finding that this leverage concept is one that we can use broadly, and I would like to get back to you with ideas on how we are going to use that money.

Senator D'AMATO. Senator Leahy has some questions that he would like to submit, and I will submit them for purposes of the record, and if you would respond to Senator Leahy I would appreciate it. Inasmuch as the chairman will be back soon—the chairman will be out another 5 minutes—I have another committee meeting, we will stand in recess until Senator Kasten comes back.

Before we recess I would like to thank you for your cooperation, for your diligence in defending an almost indefensible position, and I commend you for your work in a very, very sensitive area in terms of trying to build and maintain relationships because we really are fighting for the good will of some nations, and so many people.

We stand in recess.

Mr. McPHERSON. Thank you.

[A brief recess was taken.]

## DEOBLIGATION—REOBLIGATION AUTHORITY

Senator KASTEN. The subcommittee will come to order.

Last year we talked about your desire to have the deobligation and reobligation authority reestablished, and I believe that you remember I indicated this would probably be a reasonable approach which the subcommittee would be anxious to support and work with you on.

We have not received the request to do this. What is the status of that now? Do we assume you no longer want the deobligation and reobligation authority?

Mr. McPHERSON. We are very interested in the concept, Senator, because in fact it was an excellent management tool. One of the things I did earlier, that I think was most important to the agency when I got there was the deobligation of that $28 million a few months ago, because it told the agency and the governments we deal with that we were prepared to really match excellent programs.

As a practical matter, it is difficult in an on-going way to get an institution as big as ours, and get governments on the other end of things to continue to evaluate projects in a tough way. We continue to have modest amounts of deobligations, but that authority would be of great interest to us. However, there are proving to be numbers of intrinsic kinds of problems and we have not been able to satisfactorily work those out with OMB and generally within the Government.

The problem is that it appears, at least some suggest, the Budget Act would require that when we deobligate and reobligate this would be counted as if it was a new appropriation. And thereby requiring it would in effect reduce the money that we had available for obligation for other programs. It is these Budget Act problems that have caused us to be concerned.

There have been some suggestions that if you made all of the money on the books retroactively into no-year money, we might have the same sort of problem. You see, the distinction here historically is that up until—Jim Bond and Richard Collins would know—probably 1977, when Congress began to appropriate money for 1 year—we could, if we deobligated for a specific project, reobligate again and we didn't need the reobligation authorization.

But then in 1977 Congress made it single-year money and since then, if we obligate it during that year and then the next year we want to deobligate, the funds automatically return to the Treasury. There are a number of technical problems, and we would appreciate your continuing to be able to work with us and the majority and minority staff on this matter because I think, as you obviously tend to believe, that this is a very important managerial tool.

Senator KASTEN. We look forward to continuing to work with you.

### AID PROJECTS IN NICARAGUA

For the record, and separately, I wonder if you could send us a report detailing the current status of projects in Nicaragua funded by the Agency through the Partners of the Americas. Wisconsin has an interest in this, but I am particularly interested because of the different problems in Nicaragua. There was a radio station, for example, that was funded through AID that the Wisconsin Partner Group was operating that has now been taken over and is evidently broadcasting Marxist-Leninist propaganda. They sent the Wisconsin people home. There are a number of different projects down there instituted over a 17-year relationship with Nicaragua. In Wisconsin we had a number of people traveling back and forth to Nicaragua. I would like some information as to what projects are still operating. I want to track them. They are closing a lot of them down, and I am concerned about it.

Mr. MCPHERSON. Yes, it seems to me that it would be very valuable for the administration to do that. We would like to keep you regularly informed and keep the people in Wisconsin informed of such a development.

[The information follows:]

### PARTNERS OF THE AMERICAS ACTIVITIES IN NICARAGUA

The Wisconsin Partners is one of the most active and productive Partners groups in the U.S. and has been for years. For example, they were invaluable following the 1972 Managua earthquake.

Nevertheless, in mid-February of this year, the Government of Nicaragua informed the Wisconsin Partners personnel that all activities on the east coast of the country were to be shut down. At the time the personnel were engaged in a number of projects, including a rural radio station and a water pump project. In addition, for the past fifteen years the Wisconsin Partners were conducting a variety of health training and service activities among the Miskito Indians on the east coast. These activities involved the training of village health leaders and midwives for the purpose of improving health care services in the areas of child care, nutrition and hygiene. Yet another activity involved the installation of a two-way radio system operating among a number of villages along the east coast which was used for imparting emergency health information on those occasions when health personnel were not immediately available. This was a highly successful activity. As a consequence of the shutdown of these activities, the Partners' efforts have been redirected toward other parts of Nicaragua.

In November 1980, the USAID Mission in Nicaragua made an omnibus three-year grant to the Partners in the amount of $450,000. Activities undertaken under the grant include projects in agricultural, municipal services, community education and preventive medicine. Of the grant total, $190,000 remained in the pipeline for east coast projects when the shutdown occurred. This amount will also be used to conduct similar projects elsewhere in Nicaragua.

## COMMITTEE DIRECTIVES

Senator KASTEN. There were a number of directives contained in the committee's report on the fiscal year 1982 appropriations bill which I would like to discuss. First is the committee's concern with the downgrading of the Office of Legislative Affairs, where the Assistant Administrator spot was given to one of your personal assistants. I believe it was your decision to downgrade the legislative office which has possibly had an adverse impact. That was something that we addressed in our committee report, and I want to ask you to give some thought to reestablishing the old order.

Mr. MCPHERSON. Of course I carefully reviewed the committee report language, and on a couple of occasions I have had an opportunity to discuss it with you and the staff. It is my judgment that, in fact, the relationships have worked quite well in terms of the institutional structure but your ongoing concern, and that of others, about this obviously causes me to continue to review it, and I will do so.

## INSPECTOR GENERAL'S OFFICE

Senator KASTEN. The Committee expressed a number of concerns with respect to the operation of the Inspector General's Office. First of all, I want to compliment you for indicating your support for that office in your statement, and also, in general, the work you have been doing. But more specifically, have you now responded to the recommendations we made in the fiscal year 1982 report? We talked about having adequate resources to cover the necessary responsibilities.

Mr. MCPHERSON. I would like to respond in detail in writing, if I could, but let me make a couple of comments. I believe the Inspector General's Office is very important. One of the things I was able to do last year was to get an office open in West Africa in Abidjan. There was a general feeling that we needed to have a presence there, so as to do a more effective job. I think Congress and a number of people in the Agency have been concerned about that, and we were able to work that out with the State Department.

There are of course a number of budgetary questions and concerns that bump into each other in these kinds of matters, but I think in most ways we have been able to respond. I think the general feeling is that that office is, or at least it is my feeling it is, playing a very constructive and aggressive role.

[The information follows:]

### COMMITTEE CONCERNS ON A.I.D.'S INSPECTOR GENERAL OFFICE

In further response to the Committee's query on the status of the Inspector General's office in A.I.D., I want to assure the Committee that I strongly support the requirement for an active and capable IG function within the Agency. I intend to keep that office as fully staffed as our overall personnel levels will permit.

Specifically, the Committee should be aware that we have held the staffing line on that office at the January 31, 1981, level. We plan to hold at that level throughout this fiscal year and on into the FY 1986 period, the end year of our current personnel planning cycle. The significance of this is that in the face of our current constrained Agency personnel authorization, and the planned continuing yearly reductions in the out years, the Inspector General's personnel levels are being held steady. It is not planned that that office share in future Agency staffing reductions which, overall, I am committed to carry out.

I am aware that even with this special effort to protect IG staffing the office is considered by some, including, I am informed, the GAO, to be inadequately staffed. I share that concern, and I want the Committee to be aware that over time I intend to be alert to any possibility that may arise that might permit even very marginal increases in our IG staff. In the final analysis, however, I must look to the Inspector General, as I do to other senior officers of the Agency, to manage and employ his limited resources with utmost effectiveness and aggressiveness.

On another point of Committee concern, adequate operational travel funds, I am pleased to be able to report that for the current fiscal year that situation has sharply improved. We have, in fact, been able to increase the IG's travel funds this year to the point where the IG has assured me they are fully adequate to support his planned and anticipated requirements.

## MANAGEMENT IMPROVEMENT INITIATIVES

I would like to say, and I hope there isn't any puffing, I think in fact that the whole Agency is very aware of my intense interest in organizational efficiency. On our termination of projects we made it very clear that contractors that don't effectively perform should be terminated, and we have done so in some cases, and we are going to continue to do so.

In some ways it is a lot easier to be tough on a manager today than it might have been a few years ago. Also, I might say we think, or I think, the AID employees are particularly dedicated, and unusually educated, and a good group of people, but really in this area we need to be effective.

We have a selection-out system, for example, on the books. I believe the selection-out system hasn't functioned for years, and we are now putting it in place. It takes time and careful discussion but in fact I have every intent to make the selection-out system work. I think, frankly, the vast majority of our employees are a good deal more dedicated to what they are doing than many Government employees. I have been around this town for a good while, and I have a good source of comparison.

## SCIENCE AND TECHNOLOGY

Senator KASTEN. As you know, the Science and Technology function came under a lot of criticism last year. That was largely because it planned essentially to farm out a lot of its work to the National Academy of Sciences. What are the specific plans for the $10 million that is being requested this year?

Mr. MCPHERSON. Approximately $5 million of that will go to the National Academy of Sciences. We have worked with them, and they are in a position to do some things and provide technical support in a number of ways that Dr. Brady, who is the head of the Bureau of Science and Technology, feels can do some unusually inventive and interesting things. The other $5 million will be used for modest sized projects all over the world that are sort of innovative, quick things that we think can have a fairly dramatic impact. I would like to respond in some detail on that.

Senator KASTEN. Could you give us a list of all of the contracts with their purposes and the amounts that AID has with the National Academy of Sciences?

Mr. MCPHERSON. I will do that. I think, given that half of that money is going to that organization and to a third organization, or a second organization, the utility of that is something that is worth spelling out to you in detail.

[The information follows:]

AID CONTRACTS WITH THE NATIONAL ACADEMY OF SCIENCES

Most of AID's contracts with the Academy go to the Board on Science and Technology for International Development (BOSTID), which is responsible for examining ways of applying science and technology to problems of economic and social development. The principal objectives of the BOSTID's Program are:

- To help developing countries strengthen their own capabilities for dealing with important development-related problems and for moving toward greater scientific and technological self-reliance.

- To stimulate and support research and development within and among the developing countries on problems of high priority for development and human welfare.

- To provide developing countries with greater access to the scientific and technological knowledge and expertise that exist in the United States and other countries.

- To provide a focus within the U.S. scientific and technical community for assistance to the developing countries and to encourage greater interaction with colleagues in the Third World.

In addition to BOSTID, AID has contracts with the Academy's Assembly of Behavioral and Social Sciences and with the Food and Nutrition Board. The Assembly's objective is to bring to bear the knowledge, analytical tools, and methods of the behavioral and social sciences upon major domestic and international problems in efforts to understand them better and to assist in their alleviation. The objective of the Food and Nutrition Board is to advise Federal Agencies and the general public on scientific and technical issues relevant to food and nutrition. The Board interprets the results of research for agency action to ensure an adequate and safe food supply and, to the extent possible, to deal with special aspects of nutrition in developing countries.

NAS relies on members of the scientific and engineering communities to participate in its AID funded activities. Selected for their expertise, these scientists and engineers contribute their time and services gratis as study committee members and participants in overseas programs. Their work with counterpart groups in developing countries helps strengthen local scientific and technological capabilities related to important problems in agriculture, environmental planning, energy, forestry, health, natural resource management and conservation, nutrition, water supply and quality, and other areas. BOSTID's overseas activities also address national organization and planning needs in applying science and technology to development.

There are currently 11 active contracts and grants with the Academy as listed below. Eight of these are scheduled to end either in 1982 or 1983.

I. BOSTID

TITLE: Program for Applying Science and Technology to Development

AMOUNT AND PERIOD OF OBLIGATION: $36,000,000 January 1981 -

December 1985.

PURPOSE: To identify underexploited technologies of potential economic value to developing countries and fund networks of developing country research institutions to explore and improve those technologies.

This is the grant funded under the Scientific and Technological Cooperation Program. This grant enabled AID to move forward quickly on that program's mandate to explore the potential uses of new and emerging technologies for development and to strengthen the capacity of less developed countries to take advantage of these new technologies. Most of the grant funds support a research program which is directed by a committee of distinguished scientists from both the United States and developing countries. This grant will support research in up to 12 research areas for research to be done in developing countries--not in the United States.

Following the selection of a research area, organizational meetings of representatives from interested developing country institutions and experts from the United States and other industrialized countries are convened to advise the Committee on the most promising research strategies, and to propose cooperative activities and mechanisms for coordination. These meetings initiate and facilitate communication among institutions in developing countries working within a project area. Proposals are solicited in each project area. A typical grant might entail funding of approximately $150,000 over a 3-year period, although grants for shorter periods and varying amounts will be made. The grant recipient contributes to the research by providing partial support of the research staff, laboratory and/or field testing facilities, and administrative services.

Another major portion of the grant undertakes studies that suggest innovative applications of technologies relevant to major development problems. Important factors in the selection of a topic include its widespread importance and timeliness, and whether or not it has already received broad attention. Study reports bring together the latest information on the state of the art and specific work under way on a topic. They not only make better information available to administrators and scientists, but also generate important national and international R&D efforts and actual applications (i.e., winged bean, ferrocement). Scientists from developing countries serve on each study panel.

TITLE: Technologies for the Rural Poor Project in India

AMOUNT AND PERIOD OF OBLIGATION: $225,000 March 81 - June 82

PURPOSE: To identify through small advisory groups and seminars R&D projects related to biomass energy and postharvest food conservation technologies that are suitable for collaboration between U. S. and Indian institutions.

TITLE: Underexpoited Village Resources of Southest Asia

AMOUNT AND PERIOD OF OBLIGATION: $85,000 March 81 - December 82

PURPOSE: To produce a realistic assessment of the merits of underexploited Asian plant and animal species that seem to have exceptional economic promise. Proposed for study are Acacia mangium and Calliandra (plant species), banteng (animal species), and wildlife farming.

TITLE: Systems Analysis/Operations Research for Tunisia

AMOUNT AND PERIOD OF OBLIGATION: $54,965 September 78 - September 82

PURPOSE: To assist the Government of Tunisia in activities that will focus on scientific problems of issues related to the application of science and technology to the social and economic betterment of the Tunisian people.

TITLE: AID Cooperative Activities in Indonesia on Science, Technology, and Research Policy Development

AMOUNT AND PERIOD OF OBLIGATION: $630,000 July 79 - January 83

PURPOSE: To assist organizations of the Government of Indonesia in formulating effective policies and programs for the use of science and technology to improve the social and economic conditions of the Indonesian people.

TITLE: Sahel Regional Aid Planning and Coordination

AMOUNT AND PERIOD OF OBLIGATION: $285,000 September 81 - March 83

PURPOSE: To assist the governments and organizations in the Sahel with the development of programs directed toward the stability and production of the region's food supply systems.

TITLE: Applied Science & Technology Research, Egypt Phase II

AMOUNT AND PERIOD OF OBLIGATION: $2,015,000 August 81 - October 83

PURPOSE: To provide various services necessary to implement Phase II of this research project under the following project areas: policy planning and management; research and development sub-project support; demonstration sub-project support.

TITLE: Support of a Cooperative Program with Portugal

AMOUNT AND PERIOD OF OBLIGATION: $495,000 February 82 - February 85

PURPOSE: To assist Portugal's National Board for Scientific and Technological Research in planning and implementing programs in selected areas of science and technology; help identify personnel needs related to the selected areas and assist in the the organization of orientation, specialized research, study and fact-finding opportunities in the U. S. for key Portuguese scientists and science administrators; help identify relevant science and technology information networks in which the National Board can participate; and lay the foundation for greater cooperation between scientific and technical institutions in Portugal and the U. S.

II. ASSEMBLY OF BEHAVIORAL AND SOCIAL SCIENCES

TITLE: Committee on Population and Demography

AMOUNT AND PERIOD OF OBLIGATION: $1,536,492 April 77 - March 82

PURPOSE: To formulate detailed reviews of levels and trends of fertility and mortality in the developing world. The three major tasks are: to evaluate available evidence and prepare estimates of levels and trends of fertility and mortality in selected developing nations; to improve the technologies for estimating fertility and mortality when only incomplete or inadequate data exist (including techniques for data collection); and to evaluate the factors determining the changes in birth rates in LDCs.

TITLE: Study of the Determinants of Fertility Change

AMOUNT AND PERIOD OF OBLIGATION: $1,322,563 September 79 - September 82

PURPOSE: To develop a research agenda for studying fertility determinants; to perform a detailed analytical study of the key variables that affect fertility behavior; to work on measurement problems related to fertility determinants analysis; to study conditions affecting fertility declines in selected countries; and to study the effects of the proximate determinants of fertility such as age at marriage, breastfeeding, etc.

III. FOOD AND NUTRITION BOARD

TITLE: Nutritional Analysis of P.L. 480 Title II Commodity

AMOUNT AND PERIOD OF OBLIGATION: $239,990 October 80 - April 82

PURPOSE: To produce a study containing an historical review and analysis of the Title II program; evaluation of commodities; recommendations for Title II commodities and criteria for selection of commodities; and recommendations for future commodity research.

## INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator KASTEN. I would like to turn to your favorite subject now, the International Fund for Agricultural Development.

Mr. MCPHERSON. I have a full team behind me on that.

Senator KASTEN. As you know, we have had a number of concerns in regard to IFAD and stated very clearly that before we could agree to funding, substantial progress ought to be made in eliminating some of these concerns.

I would like to review some of those concerns and see where we stand today. I assume that the books on the first replenishment are now closed. Did the U.S. contribution exceed 20 percent of total contributions to the fund?

Mr. MCPHERSON. No, we did not.

Senator KASTEN. Have the OPEC countries in the new replenishment increased their share to 50 percent? That is what we were told they were going to try to do, and that, of course, is what the legislation in the very beginning called for.

Mr. MCPHERSON. They have come up with a formula whereby the OPEC countries will contribute 43 percent and the non-OPEC countries 57 percent.

Senator KASTEN. Have they made any moves to reduce their staff?

Mr. MCPHERSON. These figures, as you know, represent a complex set of situations.

Senator KASTEN. But the answer to the question is no, they are at 43.

Mr. MCPHERSON. I might add that the Saudis are putting in $160 million in cash up front. Given the fact that other donors, most particularly the United States but some of the other OECD donors also are not putting up cash for a period of years perhaps, that $160 million is drawing interest in the meanwhile and all of that is a very substantial amount.

Senator KASTEN. Has IFAD made any move to reduce their staff? One of the points brought up is that it is still nearly three times the size of the needed staff, and what was told to the Congress that it would be when the first replenishment was approved.

Mr. MCPHERSON. This was a matter of great concern to us. John Bolton, the Assistant Administrator for Program and Policy Coordination, went to Rome for a meeting a few weeks ago where we proceeded to argue that there should be a reduction or staff freeze and we fought this out carefully. We were able to obtain the support of the donor community generally, and there is now a staff freeze in employment.

Senator KASTEN. So, they have not reduced staff, but have frozen staff.

Mr. MCPHERSON. Now, given the augmented volume of operations and disbursements with no increase in size of the organization, that is the ratio of dollars to staff, at least we have a de facto staff reduction. A smaller staff would be better, but to me it is a fairly major achievement to get a staff freeze.

Senator KASTEN. What kind of commitment did they make in terms of time? Is that 6 months, a year, or indefinitely?

Mr. McPherson. Their annual meeting is from year to year, and so the commitment is for this year, but I feel confident that that staff freeze concept is going to be continued. I can assure you that our position is going to be very adamant. We were very aggressive in this matter, Senator. These international organizations, we all know, have a tendency to bloom in staff, and it was a significant achievement.

I don't know of any other situation where there has been a staff reduction. I presume there has been one, but none to my recollection.

Senator Kasten. Has there been any effort by IFAD to go back to its original plan as a fund rather than an agency, which is one of the reasons the staff has tripled, because they switched their initial mandate.

Mr. McPherson. I think there is some thought that the fund approach—at least in some things—is important, because their staff is in position to develop and to track projects in a major way. I know in its activities around the world, IFAD in some places is a cofinancer in some projects.

Most of the things I hear about IFAD are in fact coupled with somebody else's project instead of something that they themselves initiated. I told Dr. Brady that IFAD should, to the extent feasible, keep a fund orientation. We don't need or want another international operation that has to have its own empire and its own bureaucracy and its own problems. We need to have what we intended, which in large part was a fund.

Senator Kasten. Well, that was the point, I think, when it was initially put together, and all of the various assurances that were made to the Congress was that it was to be a fund and not an agency. Clearly, they have switched or at least deviated from the initial idea.

### AID OPERATING EXPENSES

Your operating expense budget has increased from $271 million in 1980, to a current request level of $376 million in the new budget. In other words, that is a 40-percent increase in operating expenses.

Mr. McPherson. This year we have $331 million.

Senator Kasten. My numbers may be wrong. I have $376 million.

Mr. McPherson. It is $331 million in fiscal year 1982.

Senator Kasten. In 1980 you were $271 million and in 1983 you are asking for $376 million. That is a 40-percent increase in just that 3-year period of time.

Mr. McPherson. Well, our problem that we have is that inflation in many if not most of the countries in which we currently work is considerably in excess of U.S. inflation, and so our costs, and especially housing and office operation costs have just zoomed. To exemplify it, let me talk about the increase between 1982 and 1983 where we are going from $331 million to $376 million. First of all, we have an $8 million pay hike adjustment that was plugged in there. And two-thirds of the increase is because of increased overseas expenses.

In other words, the big bulk of our jump in cost is because of the overseas component, and that overseas component is very high because inflation in these countries is substantially higher than U.S. inflation.

Senator KASTEN. Are these mostly salaries, is that basically it?

Mr. McPHERSON. It is everything. It is housing, the salaries of our host country nationals, but the operating expenses just go up very high. You take places like Nairobi, food, everything is very expensive. The key point is that the costs jump substantially faster than they do in the United States.

Senator KASTEN. That is just an area that I guess we are going to have to look into. We are looking for places to cut the budget, and we could use some additional information on that.

Mr. McPHERSON. My experience with this subcommittee is that that is a matter we will have many conversations on, and we look forward to that, that annual opportunity.

[The information follows:]

## AGENCY FOR INTERNATIONAL DEVELOPMENT OPERATING EXPENSE CHANGES BY OBJECT CLASS 1980 TO 1983

($ Millions)

| | ACTUAL 1980 COSTS | INCREASES | | |
|---|---|---|---|---|
| | | ACTUAL 1980-1981 | BUDGETED 1981-1982 | BUDGETED 1982-1983 |
| Salaries and Benefits | | | | |
| Overseas | 84.7 | 11.0 | 10.9 | 8.0 |
| AID/W | 77.8 | 5.1 | (0.8) | 1.2 |
| Total | 162.5 | 16.1 | 10.1 | 9.2 |
| Travel | | | | |
| Overseas | 21.1 | 1.8 | 4.6 | 3.8 |
| AID/W | 3.6 | (0.2) | 1.1 | 0.5 |
| Total | 24.7 | 1.6 | 5.7 | 4.3 |
| Rent, Util., Comm. | | | | |
| Overseas | 18.9 | 0.3 | 5.7 | 1.5 |
| AID/W | 8.0 | - | 3.7 | 3.9 |
| Total | 26.9 | 0.3 | 9.4 | 5.4 |
| Printing & Reproduction | | | | |
| Overseas | 0.2 | - | 0.1 | - |
| AID/W | 1.3 | - | 0.1 | 0.5 |
| Total | 1.5 | - | 0.2 | 0.5 |
| Other Services | | | | |
| Overseas | 30.7 | 2.2 | 5.5 | 9.7 |
| AID/W | 9.7 | 3.9 | 2.0 | 6.3 |
| Total | 40.4 | 6.1 | 7.5 | 16.0 |
| Supplies and Materials | | | | |
| Overseas | 4.3 | 0.5 | 1.8 | 1.1 |
| AID/W | 1.0 | - | 0.5 | 0.1 |
| Total | 5.3 | 0.5 | 2.3 | 1.2 |
| Equipment | | | | |
| Overseas | 7.3 | 2.9 | (1.0) | 1.9 |
| AID/W | 1.2 | 1.8 | (0.5) | - |
| Total | 8.5 | 4.7 | (1.5) | 1.9 |
| Land & Structures | | | | |
| Overseas | 2.0 | (1.0) | (1.0) | 3.0 |
| AID/W | - | - | - | - |
| Total | 2.0 | (1.0) | (1.0) | 3.0 |
| Grants | | | | |
| Overseas | 1.0 | 1.5 | (2.5) | 2.5 |
| AID/W | - | - | - | - |
| Total | 1.0 | 1.5 | (2.5) | 2.5 |
| Claims | | | | |
| Overseas | 0.3 | (0.1) | - | - |
| AID/W | - | - | - | - |
| Total | 0.3 | (0.1) | - | - |
| Totals | | | | |
| Overseas | 170.5 | 19.1 | 24.1 | 31.5 |
| AID/W | 102.6 | 10.6 | 6.1 | 12.5 |
| Total | 273.1 | 29.7 | 30.2 | 44.0 |
| Less: Reimbursements | (1.6) | (0.9) | 1.5 | 1.0 |
| Carryover - No Year Funds | (1.0) | | | |
| TOTALS | 270.5 | 28.8 | 31.7 | 45.0 |

## AMERICAN SCHOOLS AND HOSPITALS ABROAD

Senator KASTEN. There are a number of questions which I am going to submit, and you can respond for the record.

Senator D'Amato talked about the American schools and hospitals abroad program, and I don't know how you answered his question, but that is a political football. You can send it to us one way, and we will send it back to you another.

Mr. MCPHERSON. He complimented me as an advocate lawyer, but he didn't agree.

## EGYPTIAN PROGRAM

Senator KASTEN. Egypt's funding pipeline remains very large, and we continue to receive reports that for one reason or another many of these projects are in trouble, and they would be abandoned if it were not for the fact that Egypt would lose the money associated with these projects.

Could you comment, No. 1, on the pipeline and, No. 2, on the status of these projects, and are our reports correct?

Mr. MCPHERSON. The pipeline is approximately $2 billion. The amount which was appropriated last year roughly equaled the amount which was expended and this fiscal year, 1982, we anticipate that the amount which Congress will appropriate will be less than the amount which we expend. We will reduce our pipeline.

What you had in Egypt was a situation where a large amount of money was authorized or appropriated, and there wasn't time to get these projects rolling, so it took some time to kind of get up to full speed.

Last year we really—in terms of full speed—kind of broke even, and it is our expectation that this year we will reduce our pipeline, and it is my hope that the pipeline will in time gradually be reduced and, hopefully at some time will be reasonable for the size of the program.

In terms of the effectiveness of the projects, equipment is such a huge part of the overall agency portfolio that obviously I worry a lot about it. There are some things there which I have concern about. We do a great deal to make those things move along, and there is no question that there is sensitivity to deobligation, and that matter must be carefully worked out.

I would be less than candid if I did not say that. There is no question that to deobligate and reobligate—the authority that you made reference to—is of interest in particular because of Egypt.

But again we are not in a position logistically to be able to present it to you. I think when we discuss deobligation and reobligation, Egypt is going to be a principal focus for us both.

Senator KASTEN. You do have some projects that are in trouble, and if you had a little more flexibility you might make some changes?

Mr. MCPHERSON. If I had more flexibility, I am sure that there would be an additional careful review.

## SAHEL DEVELOPMENT PROGRAM

Senator KASTEN. Last year we drastically reduced funding for the Sahel development program because of our concern with the management of those programs. They were not able to account for certain of the funds spent, plus a number of other concerns.

What is the situation there now, and what specific actions have you taken to try to get that under control?

Mr. MCPHERSON. We had an outside accounting firm who came in and helped us carefully study that and came back with a number of accounting and other procedural recommendations as to how to handle that.

Those recommendations have been implemented, and it is my feeling that we probably have got a pretty good handle at this hour on the financial side of things. Now, the facts are, of course, that when you are in an LDC, it is never very easy to be absolutely sure in the same way that you ought to be able to be in Milwaukee or Detroit or Boston, but we think we have a reasonably good handle on it.

Now, within the Agency we just had a major review of the Sahel program. We had that office draft up papers and AID's PPC bureau came in and challenged various things, and I chaired the session.

I have a number of concerns about how, in the next decade or so, we can make a bigger impact there. The Sahel review was concluded by my directing the Africa Bureau to review again how we might augment or increase the technology that should be used or could be used there, and a number of other recommendations.

For example, sorghum and millet are essential crops, but no research has been done on major crops for the Sahel. I want to augment that kind of thing. In short, in terms of accounting for moneys, it would appear that things are much improved and in terms of an overall program we are in the process of refining that. I suspect that we will have something more as to technical orientation.

## VOUCHER PAYMENTS

Senator KASTEN. Over the years AID auditors have continued to find that AID has made payments to contractors for unsupported expenditures for goods and services not delivered, for ineligible goods and services and the work performed outside the terms of certain contracts. It is our understanding that in January of 1982, the AID Inspector General reported that in reviewing roughly 40 million dollars' worth of paid vouchers, the AID auditors found that $6,500,000 were of questionable validity.

It is our further understanding that the Inspector General concluded that you do not have reasonable assurances that voucher payments are proper and valid, particularly those, evidently, which are not subject to the customary AID project officers' administrative approval prior to payment.

Do you see these as problems within the Agency with the management, and how can they be corrected?

Mr. McPherson. If I may make a few comments, I would like to have my Assistant for Management, Tom Rollis, sitting behind me, respond perhaps in more specific detail. There is in my judgment, and always will be, a need for a constant effort to maintain tight management over a worldwide operation in sixty countries, an environment where financial accountability in the local country often is not put at a premium. It is a tough situation.

There is constant struggle between trying to require Big Eight accounting firm accountability and the need to get things done in the country. If we are not careful, we can just suffocate our whole effort, and we can discourage innovative activity. At the same time, the taxpayers of this country obviously demand and deserve reasonable accounting for what we do, and that is the constant struggle, and one that I think we are doing a pretty good job on.

But let me ask Mr. Rollis, my Assistant for Management, a CPA himself, of course, to comment on this.

Mr. Rollis. The report was mentioned in the statement. We received it in January, and we have it under study. The $6.5 million, or 16 percent, is somewhat illusory because the $6.5 million of questionable payments actually included findings either already reported in other audit reports, which go back at least to 1979, or are a result of payments made to a contractor over a 9-year period. This latter, in particular, was not part of the original sample, but was reviewed as a result of a finding during the audit of the sample.

In other words, if the percentage of questionable disbursements had been based on findings from the actual sample initially established, it probably would have been less. We do not have the dollar total of the voucher sample available to us. However, the deeper issue is one that Peter is talking about, and that is the different degrees of support that we owe, considering as to whether it is a payment to a government or payment to a contractor. We have received a preliminary response from the Comptroller's shop to discuss with Herb Beckington, our IG, but we haven't held that conference yet. In fact, we intend to convene an Agency-wide task force at the deputy assistant administrator level to modify our system of payment verification. We can assure you that we are as concerned as the IG with the validity of payments, and we do plan to make policy changes as a result of that audit.

### PROJECT MANAGEMENT

Senator Kasten. How many projects are managed from Washington, requiring personnel to travel back and forth to the project? Is that the majority of the projects?

Don't you think it might be a good idea if the management of some of these projects could be turned over to people located in the country, or at least located in the regional office?

Mr. McPherson. Well, I don't have an immediate percentage on the tip of my tongue, but surely the vast majority of the money is not managed here in Washington, but rather is managed in the missions.

If we include Israel, where we have a big chunk of money, we do have a couple of major pots of money in Washington—in the Bureau of Science and Technology and the Office of PVO's, and the Public Law 480 money—but in general we are making a major effort to try to move management, as opposed to conceptual overview of projects, out to the field.

Senator KASTEN. In general, you are trying to get the management out into the field?

Mr. MCPHERSON. In some cases we want to retain here the conceptual approval of projects. The concept of projects in science and technology, for example, rests in the hands of Nyle Brady's office, who has a scientific broad view, but once a project is approved for research to be based in Kenya or elsewhere, Brady in Washington should substantially get out of it.

Senator KASTEN. Could you elaborate for the record the number of projects that are managed from here and the ones managed overseas, so we can get a view of it?

Mr. MCPHERSON. The process of trying to divide projects between Washington-based activities and those where we give the management to the missions—especially in the case of the centrally funded projects–is a very involved one, and I won't bore you with that now.

But I think if you could take the time to get into that a little bit it will be a pretty important thing in terms of your understanding of what we are trying to do. We welcome your doing so.

[The information follows:]

## OVERSEAS VERSUS WASHINGTON AID ACTIVITIES

Of the 886 projects[1] for which there were obligations during the last fiscal year (FY 1981), 579 projects were managed overseas and 307 projects were managed in Washington. However, the number of projects and their management locus are not the most meaningful indicators of AID activities: Those projects managed overseas constituted 88 percent of the $3.5 billion in funds obligated in FY 1981. In addition, we have determined through an internal agency review that, of the so-called "centrally-funded" Development Assistance projects managed in AID/Washington, more than three-fourths of the funds actually supported programs in the developing countries—through assistance via AID's field missions or international and private organizations, through commodities distributed overseas, or through grants to indigenous organizations. Thus, in total, at least 95 percent of the FY 1981 obligations supported activities which took place in the developing countries.

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[1] Includes projects in Development Assistance, the Sahel program, American Schools and Hospitals, and the Economic Support Fund.

## INTERNATIONAL RICE RESEARCH INSTITUTE

Senator KASTEN. You just mentioned rice research. It has come to our attention that the International Rice Research Institute in the Philippines is evidently in need of extra funding. Inasmuch as this Institution is of such significant benefit to most of the world through its research on rice, wouldn't it be appropriate for AID to increase its support?

Mr. MCPHERSON. Well, there are a couple of things here. The Rice Institute has had enormous impact over the years, and I think we are very aware of the kind of impact it can have. The immediate head of that was Dr. Brady, who is now head of the Bureau for Science and Technology. I know the people there myself, and I worked with them in times past. I think that we are fairly much on top of their needs, although your calling this to our attention will cause us to look at it again.

Senator KASTEN. So you think that it might in fact——

Mr. MCPHERSON. Well, the Rice Institute is one of a group of thirteen international research centers all over the world. They are supported by an informal group called CGIAR, standing for the Consultative Group for International Agricultural Research. Under the leadership of the World Bank, this group has a session every year—a pledging session, if you will.

The United States for many years has put in up to 25 percent of the total amount raised by that group. We made the decision this last year that we weren't simply going to put in up to 25 percent, period. We were going to work within the CGIAR to insure that sufficient funds go to the most effective of those programs. We pledged to put in 25 percent of the amount up to a certain amount, I think about $41 million. We decide how our share will be allocated between the centers. The Rice Research Institute got a pretty good chunk of it—I think it was about $5 million.

There are a number of separate projects that we do with the Rice Institute. I can't give you an exact figure but we provide millions of dollars.

## OVERSIGHT OF PRIVATE AND VOLUNTARY ORGANIZATIONS

Senator KASTEN. One of the things expressed in the Senate report last year had to do with problems associated with the private and voluntary organizations added to AID oversight evaluation of the private and voluntary organizations.

What have you done concerning this issue?

Mr. MCPHERSON. We have spent many meetings and many months, it seems, in trying to work out a PVO policy that would both allow us to provide adequate oversight and direction to PVO's, but at the same time preserve their independence. We have developed a paper which will be presented to the PVO community in New York on the 25th of this month for their comment at the March 25–26, 1982, public business meeting of the Advisory Committee on Voluntary Foreign Aid in New York.

What it does—it is a very complex, and I think quite an innovative paper—but what it does, to be somewhat simplistic, is provide guidelines for AID oversight of PVO's in the field and to some degree in Washington. But it allows, on the other hand, the PVO's to be more involved in thinking through our country strategy in these countries, and also tries to insure the independence of the PVO's by requiring that they put up 20 percent of the resources, by an involved formula, but that they continue to make major contributions to the programs that they do abroad.

Frankly, the PVO's fear that we could get so involved in their business and tell them in such detail what they ought to do that they no longer have the vitality that they should have, and that is a real fear. But at the same time we are accountable for the money that you appropriate to us and we think we have to be fairly involved in deciding how the money should be spent.

So we solved this problem, we think, by getting the PVO's more involved in deciding what we should be doing in a country and also requiring that a PVO be certain to put up a significant percent of the money that it has spent, thereby being sure that when they go to the bargaining table and are talking about what should be done, that they have something to bargain with.

### PVO FUNDING

Senator KASTEN. One of the things we talked about last year was how much should be contributed to any private voluntary organization, and at what point are they really a creature of yours. If you contribute 75 or 80 percent of the money, you do have some grounds to believe you contribute too much.

Mr. MCPHERSON. We have some groups to which we contribute more, in excess of 90 percent.

Senator KASTEN. Then can you really call them a voluntary organization?

Mr. MCPHERSON. We think that that comes seriously in question. What we did, or what we proposed, is a rule to provide no more matching grants or operational program grants to an organization that does not put up at least 20 percent of its international program costs, and Congress last year recommended the same figure, and there has been upon occasion discussion of increasing that.

Senator KASTEN. You mean at least 20 percent private and 80 percent government? That even seems high to me: 50–50, theoretically, would be proper. Fifty percent would be a joint partnership, and if you are over 50 percent you control it.

Mr. MCPHERSON. Well, you have a question that comes up on that. As far as I am concerned, the more additional resources we can leverage with our money, the better—we were the ones that proposed the 20 percent rule a few months ago; that is the point where we could leverage the money better. There is a question though, that if you went up immediately to 50 percent, for example, probably only old and established, very established, organizations would be in a position to participate.

That may be all that we should really be looking to, but on the other hand, there are many groups that would say, "That is not fair. If you did that to CARE 30 years ago, CARE would not be CARE." CARE has been able to pick up their support and strength over the years for the functions that they play for the Government. I don't know just what the percentage of private funds should be but I can tell you that I am committed to moving in the direction of cost-sharing, beginning with effectively enforcing a 20-percent rule. Within a year or two I think, or some time, that needs to be looked at again.

Senator KASTEN. You said that you were going to have a meeting and put together a paper or guidelines? Are you negotiating with key people that are in the private voluntary community, or are you essentially dictating and saying this is the way we are going to do it from now on?

Mr. MCPHERSON. We like to look at them as important constituents.

Senator KASTEN. They are partners.

Mr. MCPHERSON. Yes, and therefore we have provided what in effect will be a public hearing on this document. My expectation is that they will come in with recommendations and there will be some changes that will be helpful to both of us, and it will be resolved through that meeting.

Senator KASTEN. That is good.

Mr. MCPHERSON. I might note that there is an Advisory Committee on Voluntary Foreign Aid under the Federal Advisory Committee Act, with a history that goes back 20 years, that the PVO's use as a forum to present their views, and it will be to that committee on the 25th that we will be presenting our views.

Senator KASTEN. We have a number of additional questions I will submit for the record, and there are questions from other Senators, as well. We will ask you to respond to them. They will be inserted in the record at the conclusion of this hearing. Senator Leahy is evidently on his way, and we will give him 2 or 3 more minutes.

## UNIVERSITY PROGRAMS

We have had some discussions with people about funding which we provide through American universities. Is that money being accounted for, and is that money being spent well and is it beneficial to the third world, or are we ending up with a whole lot of middle men in these programs?

Mr. MCPHERSON. I don't think so. I have been particularly interested in this part of our program. I served on a university advisory committee before I became Administrator. We have done a number of fairly innovative things here that I think will make use of the university community very well. We have set up, or tried to work out some longer term relationships with particular universities for the purpose of doing this, and in the process of doing so agreeing on specific functions that these universities might be performing over a long term, allowing them to be more efficient and allowing us to demand more from them.

We just recently called upon the university community in connection with a standard of excellence for university contractors, and I think out of that is likely to come some additional activity. In a number of other ways we have made things a little easier for universities to perform their functions and the next step is going to be a demand for even higher standards of performance.

I think the universities are an enormously productive pool of expertise, that AID has sometimes taken advantage of and sometimes not. We hope we are in the process of taking very good advantage of them. That is to our mutual benefit.

Senator KASTEN. Senator Leahy has changed his mind. There are a number of questions that we have that we will submit to you for the record. The record will remain open for 10 days, during which time members may wish to submit questions, and we would hope you can get answers back to us within 2 weeks.

Mr. MCPHERSON. We will try very hard, thank you.

Senator KASTEN. I want to thank you. We have had the pleasure of working with you over the last year, and I look forward to also working with your staff here. We have all learned a lot, and I think we are doing better in this area. I appreciate the job you and your staff are doing, the people who are with you are doing, and as we go forward into difficult budgetary items, I think it is going to be tougher and tougher for these kinds of programs.

Frankly, we have to demonstrate more results. I look forward to working closely with you and others of your Agency in the coming year.

Thank you very much.

### SUBMITTED QUESTIONS

At this point in the record, the submitted questions referred to earlier will be inserted.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### SUPER-GRADE EMPLOYEES

Senator Kasten: Your agency would seem to have an overabundance of "super-grade" employees. For example, if you compare it with the Small Business Administration, it has roughly the same number of people and roughly the same number of field offices and handling roughly the same amount of money. You find that SBA has 56 super-grades, whereas A.I.D. has 427.

Take another comparison: The National Aeronautics and Space Administration has about five times the number of people, yet the super-grades are about the same. At A.I.D., 10 percent of the positions are super-grade, whereas NASA only about 2.5 percent are.

How do you justify these numbers?

Mr. McPherson: The projection of 427 "super-grade" employees is considerably above current employment and position levels projected by the Administration as a result of staffing reviews with the Office of Management and Budget which followed our FY 1983 submission to the Congress. A.I.D. had 315 EX, FA, SES, SFS, and GS/AD 16-18 employees as of March 31, 1982 with an additional 38 vacancies for a total of 353. Of this total 19 were positions for personnel assigned to international organizations or to other U.S. Government agencies.

Our actual percentage of "super-grade" employees is about 6% which we believe to be reasonable in view of the complex nature of our program activities in 69 countries. Management of these programs require ministerial level dialogue in a multiplicity of technical fields in addition to the high level of management responsibilities vested in our USAID Mission Directors. The managerial scope of these senior officer's responsibilities is not limited to U.S. and Foreign National employees in our overseas missions, but includes the direction of individual, university and commercial contractors as well as personnel from other U.S. Government departments under Participating Agency Agreements (PASA's).

### U.S. OWNED EXCESS BURMESE CURRENCY

Senator Kasten: What is the status of U.S. owned excess Burmese currency?

Mr. McPherson: The Burmese Government is now fully current on all loan repayments of local currency to the U.S. Government and has in fact pre-paid one old PL 480 loan. At the present time the U.S. Government owns the Burmese local currency equivalent of about $15.5 million in an economic development account and approximately $11.3 million in a U.S. uses account.

Senator Kasten: Is any of this being used now? If not, why not?

Mr. McPherson: A.I.D. is now discussing with the Burmese Government various ways to make use of these excess Burmese currencies. The economic development money may be used to help finance the local costs of A.I.D. health and agriculture activities in Burma. Some of the funds in the U.S. uses account are being used to offset the cost of the U.S. Embassy's operations and other possibilities are being explored as well.

## FUNCTIONAL ACCOUNT APPROPRIATIONS

Senator Kasten: We have received your justification material, which indicates that your budget requests for A.I.D. functional accounts are as follows:

$700 million for Agriculture;
$201,040,000 for Population;
$114,063,000 for Health;
$116,383,000 for Education; and
$166,757,000 for Selected Development Activities.

Are these numbers your final request for these accounts--that is, there are no transfers or other agenda anticipated.

Mr. McPherson: Those levels are the amounts I would like to have appropriated for the functional accounts for FY 1983. At those levels, no transfers or other adjustments would be necessary to fund the program A.I.D. has proposed and hopes to be able to implement. Of course, there is always a chance that unanticipated developments would cause us to take a different view of our requirements. Let me assure you that if such unforeseen developments do materialize, A.I.D. will consult closely with you and your staff before taking any action and, as in the past, we will strictly abide by the letter and spirit of relevant legislation.

## ADVERSE INSPECTOR GENERAL REPORTS

Senator Kasten: The Inspector General comes out with numerous, although critical reports, every month which, I know, you view as a good management tool.

When there is an adverse I.G. report, which would obviously reflect on some individual's performance, is this systemized in any way so that his performance records would reflect the adverse report?

In other words, do adverse I.G. reports reflect on an individual A.I.D. employee's performance record?

Mr. McPherson: The initial responsibility for placing adverse information in an employee's performance file lies with the supervisor as a part of the Agency's continuing performance evaluation requirements. Should specific information be added to an employee's personnel folder, the employee must be notified and given an opportunity to appeal or comment on the decision to place the data in the file. The final decision concerning disposition of such material is made by the Chiefs of Washington or Overseas Personnel Divisions.

Should the Inspector General or any other source develop allegations of a serious nature, an investigation would be initiated involving officials of Employee Relations, General Counsel and the Inspector General's Office and, if necessary, the Department of Justice in accordance with joint State-AID-USICA regulations.

## FUNDING FOR W.H.O. SPECIAL PROGRAM OF RESEARCH IN HUMAN REPRODUCTION

Senator Kasten: The current legislation contains language prohibiting funds from going to the W.H.O. Special Program on Research, Development and Research Training on Human Reproduction.

Do you have any plans to fund this program in fiscal year 1983?

Mr. McPherson: A.I.D. does not plan to fund this program in fiscal year 1983.

## SUPPORT FOR LAND TENURE CENTER, NRECA, AND ENTENTE FUND

Senator Kasten: Last year's report under the agriculture function discussion indicated strong support for the NRECA, the Entente Fund, and the Land Tenure Center. What has been your response both in Fiscal Year 1982, and Fiscal Year 1983?

Mr. McPherson: The Senate Appropriations Committee report recommended $540,000 in support for the Land Tenure Center in FY 1982. Based on a jointly agreed upon workplan for FY 1982, which under our cooperative agreement is the mechanism for establishing levels of support, we have concurred with the Land Tenure Center on a program of activities requiring $549,132 in support.

The support level for FY 1983 will be based upon the workplan for that fiscal year which will be developed in September 1982. In our FY 1983 Budget Submission, we have projected the level of additional funding required for the Land Tenure Center at $400,000.

We have continued our strong support for NRECA by proposing FY 1982 funding of $600,000 and an equal amount in FY 1983.

Regarding the Entente Fund, the proposed 1983 budget includes a new Entente Rural Development project with a life of project funding of $18 million in grant funds plus a $5 million dollar loan. Of these amounts, A.I.D. has proposed obligations of $3.5 million ($2.5 million grant, $1.0 million loan) in FY 1982, after an evaluation of an earlier, related project has been reviewed. An additional $3 million grant is programmed in FY 1983. The Entente will also continue to advance private sector development in the region through the African Enterprise project for which sufficient A.I.D. funds remain in the pipeline. This project promotes small and medium enterprises including agro-industrial development in rural areas and market towns. In addition, the Entente is receptive to utilizing its loan guarantee program to promote U.S. investments in the five-country Entente region.

## INSPECTOR GENERAL

Senator Kasten: Within your Operating Expense Account what do you have allocated for the Inspector General's Office?

Mr. McPherson: In FY 1983 we propose to allocate $7,345,600 for the Inspector General's Washington operations, $1,021,700 for operational travel of their overseas personnel, and $1,818,000 for security equipment for a total FY 1983 allocation of $10,185,300. This amount does not include overseas costs such as post assignment travel, R & R travel, salaries, housing expenses, office operations, etc., which are covered by the mission of the country where the IG personnel are located and thus not separately broken out. We estimate, however, that these other unallocated overseas costs will be about $7,649,600 in FY 1983.

Senator Kasten: How does that compare with last year?

Mr. McPherson: In FY 1982, the allocation to the IG is $6,997,400 for Washington operations, $668,700 for operational travel of overseas IG personnel, and $500,000 for security equipment for a total of $8,166,100. This again excludes the unallocated overseas costs I referred to in answering your earlier question, which are estimated at $6,764,400 for FY 1982.

## IDCA

Senator Kasten: Why do you continue the "fiction" of the International Development Cooperation Agency? It is now just a shell, is it not?

Mr. McPherson: IDCA continues to serve as the Administration's central coordinating and policy-making unit for international development activities supported by the United States.

The IDCA Director serves as the principal advisor to the President and the Secretary of State on international development matters. His responsibilities as Director include preparing the comprehensive economic assistance budget and, as Chairman of the Development Coordination Committee, overseeing the preparation of the annual Development Issues Report. He also continues to serve as Chairman of the Board of the Overseas Private Investment Corporation, which is a component of IDCA along with the Trade and Development Program. In addition, the Director provides advice on development policy to the U.S. Executive Directors to the multilateral development banks, and participates in budget decisions concerning U.S. contributions to the MDBs. The IDCA Director is also responsible for the establishment of overall development assistance policy for U.S. participation in international organizations such as certain UN agencies and OAS programs whose purpose is developmental in nature.

The authorities and functions necessary for IDCA and its Director's office to carry out its responsibilities are supported by the IDCA components and AID personnel.

## LEGISLATIVE AFFAIRS

Senator Kasten: What do you have allocated under the Operating Expense Account for the Office of Legislative Affairs?

Mr. McPherson: The proposed FY 1983 allocation, which includes salaries, travel, and overhead costs, is $791,600.

Senator Kasten: How does that compare with last year?

Mr. McPherson: The FY 1982 allocation is $872,000. The reduction in FY 1983 is the result of the departure of a Department of State employee currently on detail to the Office of Legislative Affairs, and a slight reduction in the number of workyears in FY 1983 versus FY 1982.

## POLICY RESPONSIBILITY FOR ESF

Senator Kasten: I notice that you have taken some time to talk about the Economic Support Fund. While the Agency for International Development is charged with implementing programs under this account, isn't it true that the State Department has the entire say-so over policy with respect to the account?

Mr. McPherson: Section 531 of the FAA gives the Secretary of State responsibility for policy decisions and justifications for Economic Support Fund programs. The legislation also states that this responsibility is exercised in cooperation with the Administrator of the agency primarily responsible for administering the programs under Part I of the FAA. (As a result of Section 6 of the Reorganization Plan No. 2 of 1979, this responsibility as it relates to the Administrator was transferred to the Director of IDCA.) IDCA/AID play an active part along with the Department of State in determining levels and which countries should receive Economic Support Funds. IDCA/AID participate in discussions and reviews of Economic Support Fund programs with the State Department throughout the year beginning with a review of policy statements submitted by the overseas missions. This dialogue continues through the spring Inter-Agency reviews and the summer budget presentation to the Office of Management and Budget, and culminates in the establishment of an Operating Year Budget, when decisions are made on country levels within the authorized and appropriated levels. IDCA/AID also participate in discussions with the State Department on reprogramming of funds and/or any additional country requirements during the course of the budget year.

## MONITORING HOST COUNTRY CONTRACTORS

Senator Kasten: Are A.I.D. Project Officers in the field trained, equipped, and capable of monitoring the performance of host country contractors?

Mr. McPherson: Generally A.I.D. project monitors participate in the design of projects involving host-country as well as direct A.I.D. contractors chosen to assist in the implementation of A.I.D. supported projects. During the design stage project and contract benchmarks are established which serve to assist A.I.D.

employees in their monitoring of activities once the project is in the implementation stage. In addition controller, program and legal staff are available to project monitors to assist with specific issues throughout the life of a project. Most Missions conduct periodic project reviews during which all aspects of project implementation including contractor performance are analyzed.

Host country contracting is part of A.I.D.'s project implementation course. Since January 1981 there have been eight such courses involving 252 A.I.D. employees. These courses are given in Washington and in the field on a rotating regional basis approximately once every two months. All geographic regions have sponsored at least one course. In addition special implementation courses have been given in individual missions (such as Egypt) where the size of the staff justifies the expense.

## AUDIT OF HOST COUNTRY CONTRACTS

Senator Kasten: As host countries assume a greater role in project implementation, they also are expected to participate more extensively in seeing that project expenditures are proper and in accordance with contract provisions. For this reason, host country contracts include a clause which allows host countries and A.I.D. to audit contractor records and contract performance. Have you determined the extent host countries are, in fact, performing such audits and whether such reviews have provided greater assurance that payments to contractors for project expenditures billed are proper?

Mr. McPherson: The matter of adequate audit oversight of host country contracts in the foreign aid program is of concern to me. Our standard agreements under this form of foreign aid delivery place the primary responsibility for audit oversight upon the host country. In practice, we have learned that many recipient nations have very limited capacity to seriously and adequately perform this task. To examine our current system and recommend modifications, I have asked our Management head to chair a task force with our Inspector General. The mission of the task force is to define our types of expenditure and related level of responsibility and to recommend modifications to our current system to adequately carry out that responsibility.

Senator Kasten: What steps are you taking to assure that there is adequate audit coverage of host country contracts?

Mr. McPherson: With regard to ensuring adequate audit coverage of host country contracts, we have been exploring the use of private accounting firms operating under contract and conforming to GAO standards as monitored by A.I.D.'s Inspector General. Specifically, our Mission in Egypt has initiated this approach in the auditing of its A.I.D.-financed host country contracts. Quite frankly, we have encountered very slow going in putting this initiative in place, but I am confident now that we are close to a workable arrangement. Based on the results of the pilot program, it would be my intention to expand this approach to other country programs.

Senator Kasten: We understand that A.I.D. is letting a contract with a commercial accounting firm for auditing host country contracts in Egypt where the bulk of such contract activity exists. How will A.I.D. assure that the commercial auditors will take into account specific legislation and A.I.D. regulations in conducting these audits?

Mr. McPherson: The main task to be performed by the American CPA firms, in association with affiliated Egyptian accounting firms, will be to verify costs allowable under specific host country contracts, and to determine compliance by contractors with provisions of the A.I.D.-approved host country contracts, which incorporate specific requirements of A.I.D.'s legislation and regulations.

## HOST COUNTRY CONTRACTING POLICY

Senator Kasten: In 1979, the I.G. reported that the A.I.D. host country contracting policy tended to create problems in many recipient countries, such as delays in contracting for the needed goods and services with consequent slow-downs in project implementation. Has there been a recent determination or study made that would indicate that the policy is freeing A.I.D. personnel for the tasks of project design and monitoring?

Mr. McPherson: A.I.D. has not conducted such a study because the purpose of using the host country contracting mode is not to free A.I.D. staff for other tasks but to involve host countries in their own development, thereby increasing their sense of responsibility for the projects and their institutional abilities in contracting and project management. In addition, while the host country contracting mode requires less A.I.D. monitoring, A.I.D. staff must ensure that host country ministries receive the goods and services for which they contracted.

Senator Kasten: How does A.I.D. determine the relative success of the host country contracting policy in terms of its impact on the development process?

Mr. McPherson: While we have not made any formal determinations, our experience indicates that after years of using the host country contracting mode in many of their projects, the institutional capacities of the ministries in the more advanced developing countries such as those in Latin America have so improved that direct contracting becomes the exception rather than the rule

A.I.D. has recognized, however, that the host country contracting mode is not appropriate for every host country ministry, project, or contractor. We have, therefore, recently revised our host country contracting policy to leave the decision on the type of contracting mode to be employed to the senior A.I.D. official in the host country where the work is to be carried out. In making this determination, that official will consider such factors as the particular host country ministry's ability to contract for and monitor the work, the type of work to be performed, the likely support required by the type of contractor to be employed, and the host country's capacity to support such a contractor.

## HOST COUNTRY CONTRACT DATA SYSTEMS

Senator Kasten: A 1979 A.I.D. I.G. report pointed out that A.I.D. did not have a centralized control system for all host country contracts and recommended that A.I.D. establish such an inventory. Has this been accomplished?

Mr. McPherson: A.I.D. has not established a continuing inventory of host country contracts because the statistical data contained in such an inventory would not provide sufficient information to assist A.I.D. in its project management responsibilities. However, any specific request for information regarding A.I.D.'s use of host country contracts can be answered by obtaining current data from A.I.D.'s overseas missions.

A.I.D.'s project management responsibilities require a continuous tracking of all activities under individual projects, whether they are funded through a direct or host country contract, a grant to a private and voluntary organization, or a project implementation order for participant training. Thus, a host country contract is but one instrument by which a project's activities may be carried out. Host country contracts are monitored by A.I.D.'s overseas missions as part of their overall responsibility for ensuring effective implementation of the projects in their countries. At the same time, A.I.D.'s Regional Bureaus, to maintain a program overview, monitor all project implementation by their missions to ensure that scheduled implementation is proceeding as planned. When project implementation problems arise, the mission and/or the Bureau take appropriate action.

Senator Kasten: Would such inventory of all host country contracts aid the Agency's management in assessing the policy and the effectiveness of internal controls over project expenditures?

Mr. McPherson: Not very effectively. Host country contracts are monitored as a part of project expenditures. A project may involve a number of contracts, direct and/or host country for services and commodities, as well as a participant training element. The most appropriate and, in fact, the current location of responsibility for managing and assessing the effectiveness of controls over project expenditures is the overseas mission where the project is being carried out and/or its parent Regional Bureau. A central inventory would merely be a data bank of limited usefulness, requiring a substantial amount of effort to keep reasonably current.

Senator Kasten: Does A.I.D. have any data system which allows the accumulation of information on host country contracts worldwide so that performance and cost data among contractors could be monitored and compared?

Mr. McPherson: A.I.D. does not have a centralized data system. The comparability of cost data from any two countries is questionable because countries have different methods of costing the services by a contractor. For example, one country might pay very high salaries and very limited allowances; another country might pay very high allowances and a rather low salary. The net cost to A.I.D. and income to the employee may be the same in both countries, but comparing such raw data could prove highly misleading. However, our Office of Contract Management, at the request of overseas missions, does provide overhead rates for individual contractors based on U.S. Government-wide experience with those contractors. These rates are then used, in combination with other factors, during the negotiation process.

With respect to performance data, our overseas missions are responsible for monitoring the host country and/or its ministries to ensure that it receives the services and commodities for which it contracted. As part of this role, there is a steady stream of communication among missions regarding past experience with particular contractors.

Senator Kasten: For foreign assistance spent on projects implemented through host country contracts, what is your view of A.I.D.'s responsibility to see that the host country does not violate the provisions of the project agreements and does not disburse funds contrary to the contracts?

Mr. McPherson: To assure that the host country system or method of awarding contracts is adequate to carry out the project and that the terms and conditions are satisfactory to warrant disbursement of funds, A.I.D. approves all host country contracts exceeding $100,000 in value. In addition, in order to protect the Agency against either violation of the terms of the project agreement or improper disbursements thereunder, each project loan or grant agreement includes a provision authorizing A.I.D. to audit the agreement and all expenditures.

### HOST COUNTRY CONTRACT OBLIGATIONS

Senator Kasten: It is A.I.D.'s policy to have host countries implement their own development assistance projects, to the extent they have the capability to do so. Thus, considerable development assistance funding is spent on commodities and technical services under contracts issued directly by the host countries. Do you know how much money was obligated in fiscal year 1980 and 1981 for host country contracts, as opposed to A.I.D.-direct contracts?

Mr. McPherson: A.I.D. funded an estimated $1 billion in host country contract activities during FY 1980 and FY 1981. A.I.D. also let approximately $271 million in direct contracts in FY 1980 and $280 million in FY 1981.

Senator Kasten: Does A.I.D. accumulate this information as part of its overall management system?

Mr. McPherson: Information on individual host country contract obligations is recorded as part of the obligations of the project of which it is an element. This information, along with obligation data on other activities under a project such as those funded through direct contracts or grants to private and voluntary organizations, is used by A.I.D. to help monitor project implementation.

## QUESTIONS SUBMITTED BY SENATOR RUDMAN

### TANZANIA FOOD SITUATION

Senator Rudman: I would be interested to have your comments concerning reports of famine in Tanzania, due to poor harvests this year. I understand that we are in the process of negotiating a sale of rice and corn to Tanzania and that further food aid is being considered. Has the Tanzanian food shortage reached famine proportions?

Mr. McPherson: No, at present we believe there is sufficient food in country to meet the current needs. The U.S. Mission in Tanzania works closely with the Government to monitor possible food shortages in-country. Upon receipt of recent reports indicating critical food shortages, our U.S. Mission dispatched special teams to the regions identified by the Bread for the World organization in their appeal for emergency PL 480 Title II. The Mission reported their findings which indicate that while there are pocket areas of food shortages in the regions of Dodoma, Shinyanga and Tabora, the situation does not warrant diversion of food-aid already on the high seas. In response to those findings, the U.S. and the Tanzanian Government are now working to identify and allocate food shipments from existing in-country stocks to the areas with shortages. The Tanzanian Government is presently shipping grain into Tabora and Dodoma. Also, Catholic Relief Services (CRS), which operates feeding centers throughout the country, has sent food into the food shortage areas and in several cases has reopened feeding centers. Donor provided food imports (approximately 150,000 tons) continue to arrive at port. The U.S. Mission will continue to closely monitor the food situation and we have requested that the U.S. Mission provide us with regular up-dates.

Senator Rudman: What further food-aid is being considered?

Mr. McPherson: For FY 1982 we have approved donated food-aid under Public Law 480, Title II totalling $3.1 million. This food aid is being distributed through the United Nations World Food Program and Catholic Relief Services. The former is involved in rural development projects using food aid and the latter operates a maternal child-health feeding program throughout the country.

Additionally, we are planning to provide $5 million in food commodities under the PL 480 Title I concessional sales program. We expect to negotiate an agreement in the near future.

If the food situation warrants, we are prepared to consider providing emergency food from our Title II unallocated reserve.

## US PRIVATE INVESTMENT AND THE G.O.T. ROLE

Senator Rudman: The FY 83 AID budget presentation notes the following with respect to Tanzania:

> Despite differences in our social and economic system, Tanzania has welcomed U.S. private investment. Opportunities for additional investment are limited. We are attempting to promote greater incentives for agricultural production and a diminished central role in production and marketing.

In what areas have private U.S. investments been made in Tanzania?

Mr. McPherson: Energy and agri-business seem to offer the best potential for U.S. private investment. The Tanzanian Government recently entered into a joint venture with Agrico Chemical Company based in Tulsa, Okla. to build and operate a fertilizer facility. Agrico's international branch, known as the Agrico Overseas Investment Corporation (AOIC), will manage the facility.

The plant is being constructed at Kilwa which is near the Songo-Songo natural gas reserves off-shore. The plant will be fueled by the natural gas. When completed it will produce 1150 tons of ammonia and 1725 tons of urea daily for export.

The Tanzanian Government is now looking for partners to co-finance and build the natural gas line, complex and facilities for the off-shore natural gas at Songo-Songo. Our Trade and Development Program funded the feasibility study for this natural gas line project.

In February the Tanzanian Ministry of Energy and Water visited Washington seeking recognition for this joint venture, citing its viability and potential for generating foreign exchange. He met with State, AID and OPIC officials. OPIC has agreed to consider an application from AGRICO for private investment insurance for the joint fertilizer venture.

Senator Rudman: How is AID attempting to bring about a diminished central government role in agriculture production and marketing in Tanzania?

Mr. McPherson: Although we believe that the Tanzanian central government attempts to exert too large a role in regulating and managing the economy, there are opportunities for U.S. assistance to help the private individual and demonstrate the benefits of a market-oriented economic system. Some GOT policies provide a framework within which U.S. assistance can be directed at those goals. Recently, our efforts have emphasized assisting the Tanzanian government to devolve responsibility and decision-making authority for rural development to regional, district and village levels. This assessment has been carried out through projects to train village and district officials, expand the credit management capabilities of the profit-oriented Tanzanian Rural Development Bank, and help the Arusha region plan and implement its own development program.

Senator Rudman: Has the strong role of the Tanzanian Government impaired the effectiveness of AID's programs there?

Mr. McPherson: Such a possibility is of great concern to me. Government policies which dictate communal production and discourage individual initiative cannot form the basis of a sound country development strategy. This Administration has taken a careful look at our assistance to Tanzania. Our request for FY 1983 represents the level at which our assistance can be effective and contains a set of activities which avoids fostering an inappropriate government role. We believe it is possible to work cooperatively with the Tanzanian government to implement effective U.S. assistance programs.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### DEVELOPING COUNTRY POLICIES

Senator Inouye: I find myself in basic agreement with your statement that "long-term development depends, to a large degree, on the nature of the policies followed by the developing countries themselves."

What measures do you consider appropriate for AID to take when it finds a developing country's policies to be an impediment to development?

Mr. McPherson: My concern is that AID as a donor agency make the best possible use of the limited volume of our assistance to bring about the institutional and policy changes needed in aid recipient countries for them to utilize that assistance effectively.

Once we are clear in our own minds concerning the policy changes needed in a given country, the essential first measure that is appropriate for AID to take is to introduce our proposed changes into our on-going policy dialogue with the developing country's government. We can then link the policy dialogue to specific elements of existing and future AID programs in that country. Within the limits set by our country allocations, we can adjust the composition of the AID program to reinforce our negotiating position on overall macroeconomic policies or on sector policies. We can also reduce total allocations and postpone elements of the program.

Senator Inouye: If AID finds policy impediments to development in a recipient country, should AID withhold further assistance?

Mr. McPherson: Complete withholding of further assistance is a last-resort option which would be implemented only after careful consideration of the political ramifications by AID, the Department of State, and other concerned agencies.

## CONDITIONING DEVELOPMENT ASSISTANCE POPULATION

Senator Inouye: On page 28 of the Main Volume of AID's Congressional Presentation, I find the statement, "AID provides population assistance only when requested..."

If AID were to determine that a country's policies regarding population planning are impeding economic development, would AID encourage a change in those policies? Would AID withhold further assistance if the country did not change its policies?

Mr. McPherson: AID bilateral assistance is provided at the request of developing country governments. In countries where continued high population growth rates appear to be eroding economic development, AID includes this factor in its policy dialogue with the government. In fact, AID has sponsored development of a variety of tools for analyzing and demonstrating the impact of rapid population growth on economic progress, and has made these programs (e.g., RAPID) available to LDC governments as they examine the full range of their development objectives, programs, and problems.

AID's experience has been that fertility declines are greatest where governments are committed to curbing excessive population growth, and where this commitment is translated into a clear population policy and support for strong voluntary family planning programs. While we do not believe that it is in the U.S. interest to make all development assistance conditional on the host government adopting a particular population policy, we actively seek and respond to opportunities for policy dialogue on family planning as in other areas of development.

## ACQUISITION OF LAND AND STRUCTURES OVERSEAS

Senator Inouye: Will you explain the proposed expenditure of $3 million for the acquisition of land and structures overseas?

Mr. McPherson: Under Section 636(c) of the Foreign Assistance Act, A.I.D. is limited to $3 million per year for acquisition of land and structures overseas. From our analysis of field requests, current and projected requirements amount to some $12.5 million. While it is difficult to say what specific projects of the $12.5 million in requirements the Agency will fund in FY 1983, examples of approved FY 1982 projects include: architectural and engineering studies and construction of USAID offices on the Chancery compound in Niamey, Niger, $1,285,000; purchase of the land and office building which is currently occupied under lease by A.I.D. in Bamako, Mali, $1,166,000; and purchase of an adjacent residence to be used as additional office space by the USAID in Salisbury, Zimbabwe, $80,000. In view of the overall need, $3 million per year for FY 1983 and beyond is a modest investment in view of the benefits, both long and short-term.

Senator Inouye: Will this expenditure result in long-term savings?

Mr. McPherson: Our experience has shown that this type of expenditure does result in substantial long-term savings to the United States. For example, the purchase of five residences in FY 1981 at a cost of $621,000 will be completely amortized in an average of 7.3 years (FY 1989). In one case from South East Africa, houses of the type we purchased sell for approximately $105,000 and annual rent averages $18,000 per year; in this instance, the purchase price of $81,000 was an investment which will be amortized in about 6 years. In another East African country where the housing shortage was even more acute, a residence was finally located and purchased for $130,000--including modifications for security and suitability standards for U.S. housing. Normally, this type of residence rents for about $1,800 per month, when available. In this country, however, most owners decline to rent since the government imposes a 70 percent tax on rental income, so property owners prefer to sell. Even if A.I.D. could have rented this residence, it would have cost $21,600 per year. Instead, the U.S. Government will amortize its investment of $130,000 in 6 years.

Senator Inouye: In the short term, will this expenditure reduce rental costs of the Agency?

Mr. McPherson: Savings in rental costs accrue to the Agency immediately upon acquisition of the real property. Instead of maintaining a liability, our purchase converts this to a capital asset for the U.S. Government which will be amortized within a few years.

## FIVE YEAR INCREASE IN OPERATING EXPENSES

Senator Inouye: If the Congress were to approve your fiscal year 1983 budget request for AID Operating Expenses, it would result in a $103,926,000 increase in Operating Expenses, over a four year period.

How can you possibly justify an increase of this size?

Mr McPherson: In examining AID's Operating Expense budget over the past several years it is important to bear in mind that the Agency operated under Continuing Resolutions in both FY 1980 and FY 1981. The FY 1980 base, as a result of the restrictive funding under the Continuing Resolution, is abnormally low. We had to defer costs to future years wherever it was possible to do so. These deferrals resulted in 1980 obligations for equipment and other services which were much lower than they were in FY 1979, especially after taking the inflation factor into account.

The largest single increase during the past four years has been in salaries and benefits for our employees. These increases are the result of annual pay raises for all Federal employees plus the special increases in salaries and benefits provided under the Foreign Service Act of 1980, which only began impacting on the budget in FY 1981. The "Other Services" category, the second largest area of increase, reflects deferrals from FY 1980 to later years, an increased reliance on contract services overseas to offset personnel reductions, and the impact of inflation on such costs as guard services, building and equipment maintenance, language training costs, the automated Washington accounting system, development of an automated mission accounting system at selected posts, janitorial and other related services overseas, payments to the Defense Contract Audit Agency for the auditing of various AID contracts, mail service costs, etc.

The chart which we have provided for the record shows the increases by each of the major categories of expense from FY 1980 to FY 1983.

Senator Inouye: Can you point to any other government agency whose operating expenses have increased as rapidly?

Mr. McPherson: I am not familiar with the budgets of other agencies, so I cannot say whether our increase is unique among government agencies over the past four years. Comparisons would be difficult, if not impossible, to make between AID's Operating Expense budget increase over the past four years and increases in other agencies for two basic reasons. First, as I indicated in responding to your earlier question, AID was on a Continuing Resolution for all of FY 1980 and FY 1981, the only government agency of which this was true to my knowledge. Thus AID's FY 1980 level was at an exceptionally low level due to expenses deferred to FY 1981 and beyond. Second, as a Foreign Affairs agency with a large number of its employees living and working in the high cost countries of the third world, comparisons with domestic agencies, or even with the other Foreign Affairs agencies whose employees are concentrated in countries other than those in which we have a presence, are not meaningful.

I would like to assure you, however, that I am doing everything possible to monitor our operating expense costs to ensure that we incur only those costs considered essential to the proper administration of the Foreign Assistance Program of the United States.

| | FY 1980 | INCREASE | FY 1983 |
|---|---|---|---|
| Salaries and Benefits | $ 162.5 | $ 35.4 | $ 197.9 |
| Other Services | 22.6 | 21.6 | 44.2 |
| Rents, Util., & Comm. | 26.9 | 15.1 | 42.0 |
| Travel | 24.7 | 11.6 | 36.3 |
| FAAS | 17.8 | 5.2 | 23.0 |
| Equipment | 8.5 | 4.1 | 12.6 |
| Supplies and Materials | 5.3 | 4.0 | 9.3 |
| 636(c) and (d) | 3.0 | 2.5 | 5.5 |
| Reclassification of Program Costs | - | 2.0 | 2.0 |
| Security Equipment | - | 1.8 | 1.8 |
| Printing and Reproduction | 1.5 | .7 | 2.2 |
| Claims | .3 | (.1) | .2 |
| Total | $ 273.1 | $ 103.9 | $ 377.0 |

## TRAVEL AND TRANSPORTATION

Senator Inouye: Your budget request for transportation and travel represents an increase of $2.3 million. I had thought that the President was cutting back on government-funded travel. Will you explain the increase?

Mr. McPherson: The President is indeed cutting back on government-funded travel, including travel by AID employees. Our requested increase of $2.3 million represents an 11 percent increase over FY 1982. This is in spite of the fact that due to inflation and general price increases, the average cost per trip for operational travel overseas will increase by almost 21 percent in FY 1983. In addition, this overall 11 percent increase must cover increased travel costs resulting from the provisions of the 1980 Foreign Service Act which provide for R & R in the United States, travel of dependents when the employee goes on extended trips, increased provisions relating to medical evacuations, etc.

Senator Inouye: How important is travel to AID's operations?

Mr. McPherson: Travel is critical to AID. As is shown in our Congressional Presentation, almost 80 percent of our travel budget is for our overseas missions. This represents not only the costs associated with enabling our employees to visit our development projects, but also the cost of getting the employees there for post assignments, R & R visits, educational travel for dependents, medical evacuation travel, etc. Even the 20 percent of the travel budget allocated to Washington offices and bureaus is, in large part, spent on direct support of overseas missions for such activities as impact evaluations, administrative and project support provided to missions, etc. As indicated previously, over $1.0 million is budgeted for use overseas by the Office of the Inspector General.

## USE OF FIRST-CLASS TRAVEL

Senator Inouye: Does AID have a policy of not allowing first-class travel by its employees?

Mr. McPherson: With regard to first-class travel, we follow the general rules established by GSA in the Federal Travel Regulations, and our controls are very tight. In FY 1981, for example, only one-tenth of one percent of our trips worldwide involved first-class.

Senator Inouye: Are there any exceptions to this policy?

Mr. McPherson: We do authorize it for emergency medical evacuation, but all other use must be approved by the Deputy Administrator trip-by-trip and requires a strong justification. I have used it myself a few times for extended overseas flights so that I could prepare enroute for an important meeting upon arrival. For the same reason, we have recently authorized this alternative for our Assistant Administrators on overseas flights of seven hours or more, but only when business class is not available.

## REDUCED LEVELS FOR POPULATION ASSISTANCE

Senator Inouye: Mr. McPherson, your statement is that the reduction in the fiscal year 1983 population budget below fiscal year 1982 "does not indicate a reduced priority for population planning." The Congressional Presentation suggests that the decline in funding is "principally the result of a one-time increase in the program in FY 1982 to make up for shortfalls in the FY 1981 programs in Asia and a continuation of the effort begun in FY 1982 to fund a larger portion of joint population-health activities out of the health account."

Does this not, in fact, suggest a reduced priority? The request for the health account is, after all, less than the amount provided for fiscal year 1982.

Mr. McPherson: The slight reduction in population program levels from FY 1982 to FY 1983 does not indicate a reduced priority for voluntary family planning programs. In fact, the FY 1983 request reflects the outcome of an Administration review of the funding of population planning programs in which the option of significantly reducing the program was explicitly considered and rejected.

A.I.D. closely monitors all foreign assistance expenditures to ensure that the tax dollars appropriated to us are well-spent. Recently, we took a careful look at A.I.D.'s family planning programs. As a result of that review and other available data, I am convinced that voluntary family planning programs are an important component of U.S. development assistance.

As for the decline in A.I.D.'s request for health programs in fiscal year 1983, I believe that this reflects a temporary hiatus in programming while the Agency is taking a careful look at its health policies and programs. Health projects have proven more difficult than others to initiate, partly as a result of the reluctance of recipient countries to commit themselves to the high future recurrent cost burdens characteristic of primary health care initiatives. Furthermore, primary health care projects, which now comprise the bulk of A.I.D.'s health portfolio, tend to be less costly than either curative, hospital-based care or facilities-construction programs.

## QUESTIONS SUBMITTED BY SENATOR LEAHY

### NEW POLICY FOR PVOs

Senator Leahy: We understand that AID is developing new policy regarding its support with Government funds of the activities of United States Private and Voluntary Organizations. Please describe that Policy and indicate the ways in which it respects the private and non-governmental nature of private agencies.

Mr. McPherson: In the past several months, AID has been conducting a major review of its relationship with Private and Voluntary Organizations (PVOs). The purpose of this review has been to identify issues and make recommendations that will result in a more effective relationship between AID and PVOs. The Advisory Committee on Voluntary Foreign Aid is now considering the paper and the PVOs' reactions to it and will be making recommendations within the next few weeks. We will consider these views prior to our final approval of the policy statement.

The major goals of our policy are:

- to increase the economic development impact of PVO programs through increased program integration and focusing resources on field programs;
- to avoid undue dependence on U.S. Government financing of the international development programs of PVOs;
- to simplify management and administrative procedures to the maximum extent possible and create a strong focal point within the Food for Peace and Voluntary Assistance Bureau (FVA) to urge consistent implementation of PVO policy and broad information sharing within AID and with the community; and
- to ensure that AID funds are used in ways that reflect our legislative mandate, yet do so in a way that calls into full play such unique capabilities of voluntary agencies as their knowledge of the local situation and their programming and managerial flexibility.

Among the changes which are being proposed in the policy statement are: increased emphasis is placed on country program integration in order to maximize the effectiveness of development resources in Third World countries; a test for privateness is added as a requirement to qualify for the PVO grant program rather than a condition for PVO registration; increased emphasis is placed on the utilization of the existing USPVO capacity to undertake field programs; and categorization of PVO grants and administrative relationships with AID are to be simplified, taking into account the diversity of the PVO community.

There are several ways in which the policy respects the private and non-governmental nature of private agencies. One of these is the privateness test which I have referred to. This test requires that an organization obtain at least 20% of its financial resources for its international programs from private or non-USG sources in order to qualify for matching grants and operational program grants. The purpose of the test is three-fold: (1) to discourage PVO dependence on USG financing for their international programs and thereby ensure the PVOs maintain their independence of action; (2) to ensure the PVOs continue to leverage additional private financial resources for development; and (3) to simultaneously build awareness of Third World development issues among the American public.

In addition, we intend to encourage greater cost-sharing of PVO grants. AID links the concepts of cost-sharing and program independence in its grant relationships with PVOs. AID gives PVOs, which cost-share, greater independence to program funds. The new policy proposes that a portion of the non-U.S. Government support of operational program grants be derived from a direct cash contribution by the PVO.

We are also proposing to more actively encourage the participation of PVOs in the development of Country Development Strategy Statements (CDSS). The CDSS is the basic document in which AID analyzes a country's economic and social development situation and defines an assistance strategy to address the constraints. Our purpose is to ensure that AID missions consider adequately the potential of indigenous private organizations and the appropriate role of U.S.-based PVOs working in that country. Through this process, we can fashion a more collaborative relationship which takes into account the interests and capabilities of the PVOs while enhancing their appreciation of the development context in which AID seeks to operate.

## BASIC HUMAN NEEDS

Senator Leahy : Mr. McPherson, as I understand it, under the basic human needs mandate, A.I.D. is charged with the responsibility of creating a set of criteria to assess commitment and progress toward the widespread participation of the poor in the development process.

Again, as I understand it, this performance criteria is included in the Country Development Strategy Statement (CDSS) which is written for each country receiving aid.

Have you developed this performance criteria? Could I see an example of how it has been applied in Central America?

Mr. McPherson: We have developed such criteria, which are mandated by section 102(b)(4) of the Foreign Assistance Act. They include:

(1) the country's performance in fostering economic growth;

(2) the economic policy context, particularly the recipient's attitude toward market solutions to development projects;

(3) the degree to which growth benefits the poor;

(4) the country's ability to maintain and increase agricultural production and productivity;

(5) the country's performance in developing its human resource base, with particular emphasis on health and education; and

(6) the country's policy with respect to population control where overpopulation is a potential or actual problem.

An example of the application of these criteria in a CDSS is Costa Rica. The performance of Costa Rica in these six areas was an important element in our positive perception of Costa Rica's commitment to development.

## SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will stand in recess until 2 p.m. March 16, when it will continue its oversight hearings on the Polish debt situation.

[Whereupon, at 11:30 a.m., Thursday, March 11, the subcommittee was recessed, to reconvene at 2 p.m. Wednesday, March 17.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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WEDNESDAY, MARCH 17, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2:05 p.m., in room S-146, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Rudman, Inouye, Johnston, Leahy, and DeConcini.

## DEPARTMENT OF STATE

### BUREAU FOR INTER-AMERICAN AFFAIRS

### STATEMENT OF THOMAS O. ENDERS, ASSISTANT SECRETARY, BUREAU FOR INTER-AMERICAN AFFAIRS, DEPARTMENT OF STATE

### CARIBBEAN BASIN INITIATIVE

Senator KASTEN. The subcommittee will come to order.

This afternoon, the primary topic is the President's Caribbean Basin Initiative for which this subcommittee has a major responsibility. In addition, a number of members have requested that more extensive questioning be allowed on the El Salvador situation, both with reference to the fiscal year 1982 supplemental and the fiscal year 1983 program.

The witnesses today include Donald deKieffer of the U.S. Trade Representative's Office; Assistant Secretary Thomas Enders; and Otto Reich, the Assistant Administrator for the Agency for International Development.

While the President announced his program on March 1 in an address before the Organization of American States, the formal proposal was only released this morning. This initiative is part of a multilateral effort being made by the United States, Canada, Mexico, and Venezuela, which was originally conceived of last July.

The main thrust of the CBI, which is why we have asked Mr. deKieffer to testify, is the offer of one-way free trade with countries of the Caribbean Basin. The second thrust of the program calls for an investment initiative for potential U.S. investors in the Caribbean Basin. The third thrust, for which this subcommittee will have direct responsibility, is the economic assistance program supplemental totaling $350 million.

The President's Caribbean Basin Initiative has received initial strong support from Congress, support which I believe is justified for a program which seeks to help solve the problems of that region through peaceful means.

The administration's policy toward Central America is at a major crossroads, and there is a distinct feeling that decisions that will be made in the next few months with respect to U.S. policy toward this part of the world will have a long and lasting effect, an effect which may well influence other relations around the world.

We have observed what many consider to be inept handling by the State Department of a number of facets of this policy. The most recent incident was the Nicaraguan guerrilla who was paraded in front of the U.S. media, only to turn around and denounce El Salvador and our policy in Central America.

The American people do not support, and will not support, the administration's policy in this part of the world without a clear understanding of the U.S. interests, and more graphic and continued hard evidence of outside interference.

Mr. Enders, I and many of my colleagues want to support the administration's policy, and I will support the administration's policy, but unfortunately right now this administration is making it hard for us to do so.

## SITUATION IN NICARAGUA AND EL SALVADOR

Last Friday afternoon, I attended a briefing with Bobby Inman and others from the CIA, on Nicaragua and El Salvador. I am absolutely convinced of the Cuban and Nicaraguan support and control of the terrorist guerrillas in El Salvador. There is no question whatsoever in my mind that we have got to bring that information into public view. We must let the people of this country know what is going on right beyond our borders.

Hopefully, the subject of today's hearing, the Caribbean Basin Initiative, will help turn what is now nearly a tide in American public opinion from anti- to pro-administration policy. These might be tough words, but I think you know that they reflect reality.

The American people were embarrassed by this country's inability to deal with Vietnam, Iran, Nicaragua, and a number of other incidents. This administration held the promise of a tough, confident, and rational foreign policy, and it is again embarrassing to the American people that we have not been able to take firmer control of the situation in our own backyard.

As we look around now, we see unprecedented military build up—an offensive and not a defensive military build up—first in Cuba and now growing in Nicaragua and other countries. The trends are going against us. In this atmosphere, we see danger.

Strong, private sector economic strength in these countries can be the very best defense against the dangers that we see building from the other side in the military area. That defense of a strong economy can be better than any weapons, better than the kind of security assistance programs that we have and we must have.

So I am pleased that you are here today to present to the committee the Caribbean Basin Initiative.

### OPENING REMARKS OF ASSISTANT SECRETARY ENDERS

Mr. **Enders**. Thank you very much, Mr. Chairman.

I have a statement which I would like to submit, if I could, for your record, but perhaps you would permit me to make a few remarks at the start.

Senator **Kasten**. Please.

Mr. **Enders**. Mr. Chairman, the President remarked this morning, in submitting his message to the Congress, that this is an extraordinary proposal that we are making. He noted that we were making it at a time of economic difficulty at home and at a time of budget cutting.

Why are we taking such a far reaching measure involving an unprecedented one-way free trade area, involving substantial additional economic assistance credits, involving investment incentives, and other measures of this type?

The reason is that this is, as you said yourself, Mr. Chairman, an area of fundamental importance to us. Half of our trade comes through the Caribbean, half of our imported strategic materials, including oil, come through the Caribbean.

We are a country that never has had to fortify our southern border, which is a great strategic contrast between this country and the Soviet Union in that respect. Yet, should we find a proliferation of hostile, or potentially hostile states, our strategic position would change.

It is also clear that this country has been a magnet for migration, in recent years, much of it undocumented. We know well that further convulsions in the region would lead to yet higher migration to the United States.

So it is an area of fundamental importance to us.

Second, it is an area in economic, social, and in some cases political turmoil. The economies of the area, after a generation of pretty good achievement after the Second World War, have run into very serious problems. They are all small, and the degree to which they can prosper on the basis of staple commodities is limited. They have all had more trained and experienced labor than they can employ, and a combination of falling prices for commodities other than oil, and the continued demands of developing social systems in those countries, and encouragment of social change have led to, in many cases, economic distress and, in some cases, economic collapse.

### POLITICAL ACTIVITIES OF CUBA

Then, of course, coming on top of this, Cuba, their neighbor has moved in very fast, changing its tactics in the last 3 years from one of essentially standing aside from the area, to a very aggressive effort to unify the left in the area, train its members, and turn them against the government.

A combination of these two factors, Cuban activism on the one hand, economic and social trouble on the other, have produced an extraordinarily explosive mixture.

## COORDINATION WITH OTHER COUNTRIES

The proposals that we are making today are designed to deal with the economic and social aspects. We are not proposing to deal with them alone. A number of other countries have already started, and since we have begun working with them in a group that was first called the Nassau Four, which is now called the New York Five, now includes Colombia, Venezuela, Mexico, Canada, as well as the United States.

Other countries are making very important efforts. Mexico and Venezuela together are giving some $700 million a year through their oil facilities to the area. Colombia, a developing country itself with an average income of less than $1,000, has just come up with an important package of assistance to the area—new credits, new trade preferences, bank swaps. A remarkable effort on the part of one developing country for another. Canada is doubling its aid effort to the area and gives a wide range of tariff preferences.

The program we are putting before you, Mr. Chairman, is a program which is designed to catch up with what the others are doing and build on what others are doing in a coordinated fashion.

Secretary Haig, Bill Brock, and I met over the weekend with the foreign ministers of those other four countries. They warmly welcome and very strongly support the proposals that the President has made.

We will stay in very close coordination with those countries in order to insure the sufficiency of this effort overall. Together, we are inviting countries from Europe and Japan, in order to encourage them to increase their assistance.

A second element, which is very important, is that this is basically a program designed to help the countries of the area help themselves. It has an aid element in it, $350 million worth of emergency assistance to a number of countries. But this is designed as an emergency element, as a bridge to enable countries that, in some cases, are prostrate and, in other cases, may well become so very early, to survive over the next year, while the other authorities get into place, and while an effort is made to generate some local economic growth.

We think that a long-term program of economic assistance at a very high level is neither desirable nor possible. Not desirable because it would put these countries permanently on the dole in ways that they would regard ultimately as unsatisfactory. Not possible because the American taxpayer would not be prepared and should not be prepared to take on that burden.

Mr. Chairman, this is not the only part of our policy toward the area. We think that it is an essential part of any competent policy toward the area, but there must be other elements, too.

## EMERGENCY ECONOMIC AND MILITARY ASSISTANCE

In countries like El Salvador, and above all in the present El Salvador in which there is an active insurgency, we believe that it is appropriate that the United States provide military assistance, enough military assistance and military training so that the insurgency can be held off, while essential reforms are being undertaken at home.

In the case of El Salvador this means in particular getting on with the all important land reform, getting on with the all important political reform, the creation of democratic institutions, so that there will be in Central America, finally, an alternative to left-wing or right-wing dictatorships. Up to the present time there has not been that alternative.

We think that there also ought to be an effort to use whatever political contacts and negotiation possibilities there are to lessen conflict, and remove the causes of insurgency. As you said, Mr. Chairman, Nicaragua is deeply involved in the insurgency in El Salvador. The Nicaraguans deny that they are, or at least are as a government. On the other hand, the evidence that we have, although it cannot all be made public, is overwhelming.

What we have told them is: We understand what you are doing. You don't have to confess to us and tell us that you are doing it. We want you to stop it. We are in a position to know that if you do stop it, we will know it. However, we are prepared on our side to make an effort to remove the causes of friction that you see with us.

Nicaraguans profess that they are worried about being invaded by the United States. We said: All right, we will propose to you a nonaggression pact of sorts, to be a solemn political undertaking on both sides.

They have said to us: We are worried about Nicaraguan exiles in this country. We have said: All right, we are prepared to address that. They have said to us: We want very much to have renewed American economic aid. We said: In the context of an overall settlement, we would be prepared to ask the Congress for additional economic assistance for Nicaragua.

We have told them that two things must be done on their side. One is that they must stop their support for the insurgency in El Salvador. Two is that they should join with other countries of the area in an effort to prevent a new arms race.

We are all worried about heavy offensive weapons coming in, the threat of Migs being added to the tanks that are already in Nicaragua. We have said to them: Why don't you join with the other countries of the area in a multilateral agreement that says that no country will import heavy offensive weapons into the area, and no country will import tanks and Migs, or the equivalent.

We have added: Why do you have to have all those foreign military and security advisors? Why shouldn't we have a multilateral agreement between all countries of the area that says that nobody should have more than a small number of foreign military and security advisers, a reasonable low number.

Mexico and some of the other regional powers, Venezuela, have given us an opportunity to pursue these contacts. We will take advantage of Mexico's good offices to put people together that might otherwise find it difficult to meet, although we will propose to handle any of these contacts as purely bilateral contacts.

So, Mr. Chairman, I see the President's proposal as one element of four elements of a regional strategy. Yes, we must address the economic and social problems of the area through the program we are putting before you. We must have enough military assistance, not to win a military victory in El Salvador, but to permit an ultimate political victory, you must have social change in El Salvador and you must have it on a large scale through land reform and political reform. Then there must be a negotiating track.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Enders follows:]

## PREPARED STATEMENT OF THOMAS O. ENDERS

## ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

The President on February 24 announced a comprehensive program of U.S. measures to reverse the economic decline of the Caribbean Basin and restart the process of self-sustaining growth. Today he transmitted this program for Congressional action.

This program responds to an economic crisis which is real and acute. Falling prices for their exports, worldwide recession, continued high prices for energy and capital imports, high interest rates, the drying up of capital flows -- all these external factors have hit these small and vulnerable economies very hard. These external blows, falling on economic structures which were in many cases already brittle, have resulted in internal economic conditions which are disastrous. Unemployment in many countries is 20 to 30 percent or more. Few have experienced any significant growth, and some have had repeated years of negative growth. Inflation of 40 or 50 percent is not unusual. There is a severe crisis of confidence of local business, extending even to small savers, resulting in massive capital flight and severe balance of payments problems.

Let me describe in somewhat greater detail just two examples of the problems which this area faces.

Honduras is a nation moving steadily toward democracy, in a region of revolution and instability. The newly-elected democratic government has pledged a strong fight against corruption and dedicated efforts to put the economy on a sound footing. However, it faces significant economic difficulties -- falling coffee and banana prices, high oil prices, investor fear of regional instability, capital flight, and internal management problems in some institutions. The estimated growth rate for 1981 is only 0.3 percent. Foreign exchange reserves fell last year by $71 million.

As the least sophisticated institutionally and the poorest country in the Central American region, Honduras is less able to sustain an economic crisis than its neighbors. Over the longer term, however, Honduras has an essentially sound development program which is supported by the IMF and the IBRD.

A combination of internal policy changes, some additional foreign assistance, and improved market access for its exports will allow Honduras to weather the current storm. Within about three to four years, the bulge in development spending should be over and the country will begin to benefit from substantial improvements in infrastructure. There is thus good reason for optimism that the economy will return to its previous pattern of significant growth.

A second example is Jamaica. Between 1973 and 1980, Jamaica experienced seven consecutive years of economic decline. Real GDP over this period fell by 22 percent per capita; the unemployment rate in November 1980 was 26.8 percent.

The Seaga government, which replaced the Manley regime in October 1980, is committed to a stabilization and recovery program stressing private sector production. The program is supported by IMF and other assistance. In 1981, a 1.5

percent growth rate was recorded, and the consumer price index rose only five percent.

While the new government has made an encouraging start in implementing policy reforms, it still faces tough challenges. Foreign exchange earnings from commodity exports and bauxite have been lower than expected because of weak world market conditions. While a large number of foreign direct investment leads are being developed, the actual realization of new investment has lagged. Meanwhile, imports have exceeded projections.

To maintain growth and to prevent a further loss of foreign exchange reserves in 1982, Jamaica will need additional external support. Without such support, the country will endure a forced contraction of imports which would affect such basic items as food, petroleum, agricultural and industrial raw materials, and capital goods. The growth rate could be brought close to zero during 1982, and the decline in unemployment since Seaga's election would be reversed. Social and political discontent would intensify, and we would risk another downward spiral in economic activity.

At the same time, the foundations for full recovery leading to self-sustaining growth are being laid. Resolution of the short-term foreign exchange scarcity problem and access to developed country markets for Jamaica's exports are critical to the continued success of Mr. Seaga's recovery program.

Mr. Chairman, as these two examples graphically point out, we are now at a crossroads with regard to our economic relationship with this region.

As the President pointed out in his February 24 speech, these countries are our neighbors, and what happens there affects us here. We cannot just pull up stakes and move to another part of this globe.

Certainly this program is not costless. But the costs of inaction and indecision are far greater. I need not point out to this Committee what a string of hostile states to our south would mean for our security expenditures. Nor do I need to point out what social upheavals in that area would mean to our own society in terms of absorbing large numbers of refugees and migrants, as well as simply in terms of the vision of massive human suffering right in our neighborhood.

The crisis in the Basin countries is just that -- a crisis. We need to act effectively, otherwise we will simply be throwing our money and efforts away. We need to have a program which has the "critical mass" necessary to affect the attitudes and behavior of the people that really matter.

And by that I mean the people who are making these economies work or not work -- not just high government officials but also local businessmen struggling to keep their little businesses going; not just the big corporation deciding whether or not to build a new factory but also the small farmer deciding whether to plant just enough for his own family or to plant enough for a marketable surplus. Taken together, the decisions of small economic actors have as large or larger an impact upon entire economies as do the decisions of the large investors. We thus need a program of sufficient impact to reverse the pessimistic expectations of workers, farmers and businesses to survive within their own economies.

The program which the President seeks is one which does have the necessary "critical mass." First, it has been carefully designed as an integrated program combining several different types of economic measures -- trade, investment and aid. It includes a balance between measures having immediate or short-term impact addressing the emergency needs of the region, as well as longer-term measures which will sustain and strengthen the economic development of these countries after recovery has begun. It is carefully focused at the productive sector to make sure that goods and services and jobs are produced as quickly and efficiently as possible. In this way also, it will help to restore the confidence of the people who are the economic and political backbone of these societies in the continued viability of these societies.

Second, the President's program is not just an isolated U.S. effort. It has been carefully coordinated with the efforts and plans of many others. We have consulted closely with the governments and the private sector of the Caribbean Basin countries. Our program reflects not only our own assessment of their needs and resources, but also their own priorities and plans. We will continue to consult closely with the governments and private sector leaders in these countries on the programs which they will undertake to promote their own development.

We have also consulted carefully with other potential donors. There is now in place or being established an interlocking framework of multilateral consultations among donor countries, recipient countries, and international financial institutions. This network will ensure that our efforts will be enhanced by the effects of other complementary programs.

Last weekend in New York, Secretary Haig and Ambassador Brock met with their counterparts from four other countries, each of which is making very significant contributions to the region -- Canada, Mexico, Venezuela and now also Colombia. These countries are expanding their already impressive financial, technical and trade support for the Basin countries. Canada is doubling its aid to the region and has duty free or preferential access on 98 percent of the Basin's exports. Mexico and Venezuela are offering concessional financing on oil which is valued at approximately $700 million. Colombia has now also joined this effort by initiating a whole range of measures, including new credit lines and reciprocal credit agreements.

The scope of the effort is particularly impressive since three of these countries are themselves still developing and face considerable economic challenges of their own. However, each of these countries has decided that the needs of its neighbors in the Basin are so acute as to call forth additional efforts. And each recognizes that they have a long-term interest in the stability and prosperity of the neighborhood which we all share.

Third, this program is designed to help these countries help themselves. These countries want and need external support. But in the last analysis, our program -- indeed any program of outside support -- will only be successful if the people of the region make it so. I believe that most of the countries in this area are ready to undertake the difficult but necessary reforms to turn their economies and societies around. They need our support to make those reforms effective quickly, so that their people can see that their sacrifices today will result in a better life tomorrow.

Finally, the President's program is necessary to advance our national interests in the Caribbean Basin. It will help alleviate the root causes of human misery which have stimulated a major and sustained flow of people from the Caribbean Basin into the United States. It will promote long-term self-sustaining growth, thus reducing the need for future assistance from the United States. It will enhance the security of and prospects for democratic political evolution in the area by offering a credible alternative to the thesis that economic progress can only be achieved through violent change and the imposition of undemocratic Marxist governments. And it will protect our strategic and economic interests in the area by promoting the establishment of stable democratic governments friendly to the United States.

It is not the sole component of our policy toward the Caribbean Basin. We must continue our vigorous support for the evolution of democratic institutions throughout the area -- helping to strengthen those institutions where they now exist and supporting their establishment when they are not yet present. We must also be prepared to continue to provide military assistance in the form of equipment and training to those countries which are under active attack or threat of attack by forces supported from outside. But the President's economic proposals form the centerpiece of our long-term commitment to the region.

In sum, we are proposing a program that serves our vital interests by promoting the establishment of a region at peace with itself, free from outside threats, able to devote its energy and attention to economic programs and the development of free political institutions. The alternative to action by the United States and other concerned nations is a region increasingly unstable, increasingly hostile to the United States, and increasingly attracted by the empty promises of radical groups supported by Cuba.

# EXECUTIVE OFFICE OF THE PRESIDENT

## OFFICE OF U.S. TRADE REPRESENTATIVE

## STATEMENT OF DONALD deKIEFFER, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

### DUTY-FREE ACCESS TO CARRIBBEAN PRODUCTS

Senator **KASTEN**. We will submit the prepared statements of Mr. deKieffer and Mr. Reich for the record. Mr. deKieffer, would you like to make a brief statement?

Mr. **DEKIEFFER**. Thank you, Mr. Chairman.

I will not reiterate the comments that the Secretary used to introduce the entire area, nor will I comment in any detail upon the situation in Central America. But I think there are a couple of items that do deserve to be emphasized regarding the entire CBI package.

First, this area is vitally concerned with the question of whether the products of new or expanded production in the region will have liberal access to the markets in the United States. A very high percentage of Caribbean products now can enter the U.S. market duty free under our generalized system of preferences.

Many potential Caribbean exports have never been included in this scheme. Other products have been eliminated from eligibility through GSP petition process or by the competitive need limitations built into our existing law.

Mr. Chairman, accordingly, the President has requested the authority to grant duty-free access for all Caribbean Basin imports, with the exception of textiles and apparel items subject to the textile agreements, particularly the multifiber arrangement for a period of 12 years.

We think that such an immediate extension of duty-free access on products that have not previously been included in the GSP scheme is currently warranted and does not pose any threat of injury to any potentially affected American industry.

Should there be a threat of injury at some point, however, Mr. Chairman, we will retain the ability under existing law, particularly sections 201 and 203 of the Trade Act of 1974, to provide the kind of protection that an affected American industry may need at some point in the future.

### INVESTMENTS IN CARIBBEAN REGION

Mr. Chairman, the second impediment in the view of the Caribbean Basin governments, that has been expressed to our Government and private sector representatives, is the relative unattractiveness of the Caribbean to prospective United States, and for that matter even foreign, investors.

Under present circumstances, if an American firm chooses to invest in the Caribbean, it would be disregarding the favorable tax treatment of fixed asset expenditures which is available in the United States under the domestic investment tax credit.

There is a simple, and we believe equitable, solution to this problem. It is our proposal to extend the same type of tax treatment for investments in Caribbean Basin property as is now available for domestic property. This treatment will be extended to qualifying beneficiaries for a period of 5 years.

So in the case of both our trade and tax proposals, the impact of the measures will depend solely upon the initiatives of the private sector. A more amenable climate for commercial opportunities is being created, but market forces, we believe, ultimately will determine the success of our joint efforts.

## CONCESSIONAL AID

There has been an urgent request by several of the beneficiaries for relief in the form of concessional aid. They have sought this concessional aid because it is the only practical solution to their very serious balance of payments and debt problems.

The prospect for many of these economically depressed nations would be far worse, Mr. Chairman, if there were insufficient credit to support even the basic private sector borrowing needs.

Today, the sums that are needed for this purpose are manageable and the costs that could be incurred from a failure to take immediate remedial action now would be far greater than the provision of these financial resources.

The Caribbean Basin Initiative also contains certain proposals regarding Puerto Rico and the Virgin Islands, which we believe are extremely important to the success of the entire package. We want to assure you that in reducing impediments to the economic revitalization of the Caribbean Basin generally, we will be establishing a relationship with Puerto Rico and the Virgin Islands which encourages these islands to play a dynamic role in the region.

One important consideration in this regard was the potential effect on their revenues of the duty reduction on rum. Accordingly, we are proposing that all excise taxes on all imported rum be rebated to Puerto Rico and the Virgin Islands. Of similar importance will be the granting of tax benefits to these territories which will eliminate any semblance of fiscal discrimination.

Other steps are proposed, such as the treatment of territorial goods under the trade arrangements rules of origin which will be of mutual benefit to our territories and to their neighbors in the basin.

What we are seeking, Mr. Chairman, in the final analysis, is to help the people of the Caribbean Basin build for themselves a better life, not just economically but across the whole spectrum of human needs and aspirations.

Mr. Chairman, I have spoken today about the serious impediments to renewed economic activity which the Caribbean Basin Initiative is designed to address. The initiative represents a mutual commitment to reduce impediments and to renew economic activity in the Caribbean Basin. We know and believe that it will be successful.

I believe I would like to stop right there and defer to my colleagues.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you very much for your presentation.

[The prepared statement of Mr. deKieffer follows:]

### PREPARED STATEMENT OF DONALD E. DEKIEFFER, U.S. GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Chairman Kasten and members of the committee, On behalf of the United States Trade Representative, William E. Brock, I would like to discuss briefly the Administration's Caribbean Basin Initiative. The President today has transmitted to the Congress the legislation necessary to implement this Initiative. Before Congress now is what we believe to be a innovative program for economic cooperation and economic partnership within this hemisphere. It is a multi-dimensional program, combining carefully crafted and focused trade-, aid-, and investment-related measures.

We are faced in our own hemisphere with a region which is adrift in the world economy, and which is nearly defenseless today against the vagaries of the international economy. As the Basin economies have been battered by the oil price hikes and more recently the fall of sugar and other commodity prices, internal tensions have mounted. The Caribbean Basin Initiative is a response to regional economic problems which must be addressed if this country hopes to live in a hemisphere free from the suffering that is now so vividly apparent in the Caribbean.

Let me now review with you the impediments that the Caribbean nations identified during our consultations and explain how the Initiative's elements respond to these problems. First, the nations of the Basin were virtually concerned with the question of whether the products of new or expanded production in this region would have liberal access to markets in the United States.

While a very high percentage of Caribbean products can now enter our market free of duty under the Generalized System of Preferences, many potential Caribbean exports have never been included in this scheme. Other products have been eliminated from eligibility through the GSP petition process or by the competitive need limitations.

Accordingly, the President is requesting the authority to grant duty-free access for all Caribbean Basin imports, with the exception of textiles and apparel items subject to textile agreements, for a period of 12 years. We think that such an immediate extension of duty-free access on products that have not previously been included in the GSP scheme is warranted, and does not pose a threat of injury to any affected U.S. industry. Should, however, a threat of injury, or injury itself, actually develop, we will retain the ability to safeguard U.S. industry from Caribbean products using the remedies available under Sections 201 to 203 of the Trade Act of 1974.

A second impediment in the view of Caribbean Basin governments and private sector representatives is the relative unattractiveness of the Caribbean to prospective U.S. investors. Under present circumstances, if a U.S. firm chooses to invest in the Caribbean, it would be disregarding the favorable tax treatment of fixed-asset expenditures which is available in the U.S. under the domestic investment tax credit. The simple, and we believe equitable, solution to this problem is our proposal to extend the same type of tax treatment for investments in Caribbean Basin property as is now available for domestic property. This treatment would be extended to qualifying beneficiaries for a period of five years.

So in the case of both our trade and tax proposals, the impact of the measures will depend solely on the initiative of the private sector. A more amenable climate for commercial activity is being created, but market forces ultimately will determine the success of our joint efforts.

There has been an urgent request by several of the potential beneficiaries for relief in the form of concessional aid. They have sought concessional aid because it is the only practical solution to their very serious balance of payments and debt problems. The prospects for many of these economically depressed nations would be much worse if there was insufficient credit to support even the most basic private sector borrowing needs.

Today, the sums that are needed for this purpose are of manageable proportions. The cost that could be incurred from a failure to take remedial action now would be far greater than the provision of these financial resources.

The Initiative also contains certain proposals regarding Puerto Rico and the Virgin Islands. We want to assure that in reducing impediments to economic revitalization in the Caribbean Basin generally, we will be establishing a relationship with Puerto Rico and the Virgin Islands that encourages these islands to play a dynamic role in the region.

One important consideration was the potential effect on their revenues of a duty-reduction on rum. Accordingly, we are proposing that all excise taxes on imported rum be rebated to Puerto Rico and the Virgin Islands. Of similar importance will be the granting of tax benefits to these territories which should eliminate any semblance of fiscal discrimination. Other steps are proposed, such as the treatment of territorial goods under the trade arrangement rules-of-origin, which should be of mutual commercial benefit to our territories and to their neighbors in the Basin.

What we are seeking, in the final analysis, is to help the prople of the Basin build for themselves a better life, not just economically but across the full spectrum of human needs and aspirations. I've spoken today of the serious impediments to renewed economic activity which the Caribbean Basin Initiative is intended to address. The Initiative represents a mutual commitment to reduce the impediments to renewed economic activity in the Caribbean Basin.

Thank you.

# AGENCY FOR INTERNATIONAL DEVELOPMENT

## BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

### STATEMENT OF OTTO REICH, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT

### ASSISTANCE TO LATIN AMERICA COUNTRIES

Senator KASTEN. Mr. Reich, do you wish to make a brief summary?

Mr. REICH. Thank you, Mr. Chairman.

As you know, the CBI consists of mutually reinforcing trade, aid, and investment measures. The major objective of the aid component of the CBI will be to assist the countries of the region in overcoming their external economic disequilibrium over the next few years through stabilization and recovery programs.

This will require large and immediate infusions of foreign exchange for balance-of-payments support. It is primarily for this need that we require the $350 million of economic support funds [ESF] requested, as well as the $140 million of ESF already appropriated.

Participation by the United States in the stabilization and recovery program is especially important for strengthening private sector confidence, both domestic and foreign, but primarily domestic.

It is crucial, in turn, to the countries of the Caribbean Basin that they obtain other external resources in the form of commercial bank lending, supply of credit, and direct foreign investment. Our resources alone are not going to turn the tide.

AID will play an important role in assisting the Caribbean Basin countries to design programs that will permit them to use foreign exchange efficiently to meet their economic needs and development objectives and to utilize local currency generations in accordance with those needs.

Within those overall stabilization and recovery programs, ESF assistance will be primarily to encourage allocation of resources toward private sector imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in the balance of payments.

At the same time, we will be discussing with policymakers in the Caribbean Basin and with international organizations, such as the International Monetary Fund and the World Bank, possible measures to insure that ESF and other outside assistance is utilized effectively, so as to have the greatest possible effect on production and employment.

While the ESF resources will permit AID to focus increased attention on the short-term stabilization, we realize that development is a long-term goal and a long-term problem. Our development assistance will be increased in the region, both in traditional and nontraditional ways, in order to try to accomplish the development objectives of the President's Caribbean Basin Initiative.

### PREPARED STATEMENT

I would like to stop there and submit the remainder of my statement for the record.

[The prepared statement of Mr. Reich follows:]

# PREPARED STATEMENT OF OTTO J. REICH

## ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### A.I.D.'s Role in the Caribbean Basin Initiative

Mr. Chairman, it is a pleasure to be here today to discuss A.I.D.'s involvement in the Caribbean Basin Initiative. The CBI exemplifies the President's commitment to economic development. In announcing this initiative at the Organization of American States on February 24, President Reagan said that "we must help because the people of the Caribbean and Central America are in a fundamental sense fellow Americans. Freedom is our common destiny. And freedom cannot survive if our neighbors live in misery and oppression."

Mr. Chairman, as you know, the CBI is an integrated package of trade, investment, and aid measures designed to assist the countries of the Basin in coping with an unfavorable international economic environment and in implementing more effective economic policies that stimulate private investment and employment in directly productive activities. A.I.D. will have a major role in planning and implementing the aid component of the CBI. It will also play a major support role in assisting the Caribbean Basin countries to take maximum advantage of the opportunities which will be made available by the trade and investment components. Through complementary efforts in trade, investment and aid, we hope to assist countries in the Basin to resolve their short-term financial problems, contribute to a revitalization of their private sectors, and support the adoption of a more positive set of government economic policies, thus laying the groundwork for sustained economic growth and solutions over the long run to their prinicipal development problems.

The major objective of the aid component of the CBI will be to assist the countries of the Basin in overcoming their external economic disequilibria over the next few years through sound stabilization and recovery programs. This requires large, immediate infusions of foreign exchange for balance-of-payments support. It is primarily to this need that the additional $350 million of Economic Support Fund (ESF) assistance requested for FY 1982--as well as the $140 million currently programmed--is directed. Although these new resources will substantially increase total U.S. aid to the Caribbean Basin, our resources alone cannot bring about the degree of recovery needed to contribute to a relaxation of the social and political tensions now threatening U.S. interests in the Caribbean Basin. Thus our programs have to be viewed as part of a larger package of assistance which includes resources made available by other donors, including Canada, Mexico and Venezuela, plus the International Monetary Fund, the World Bank, the Inter-American Development Bank and other multilateral assistance agencies.

Participation by the United States in these stabilization and recovery efforts is especially important for strengthening private-sector confidence, both domestic and foreign. This, in turn, is crucial if the countries of the Caribbean Basin are to obtain other external resources in the form of commercial bank lending, suppliers' credits and direct foreign investment. An improved climate of confidence will also slow and ultimately reverse the flight of domestic capital abroad.

A.I.D. will play an important role in assisting Caribbean Basin countries to design programs that will permit them to use foreign exchange efficiently to meet their economic needs and development objectives and to utilize local-currency generations in accordance with those needs. Within these overall stabilization and recovery programs, ESF assistance will be used primarily to encourage the allocation of resources toward private-sector imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in the balance of payments. At the same time, we will be discussing with policy makers in the Caribbean Basin countries themselves and with other donors, including the International Monetary Fund and the World Bank, possible reform measures to ensure that ESF and other external assistance is utilized effectively so as to have the greatest possible impact on production and employment.

While additional ESF resources will permit A.I.D. to focus increased attention on stabilization and recovery over the short term, increased levels of Development Assistance will enable A.I.D. to continue working toward our principal long-range objective in the Caribbean Basin--the establishment of self-sustaining and broadly-based growth within a democratic framework. Our Development Assistance program for the Caribbean Basin in FY 1982 will total $211 million, compared with $167 million in FY 1981. Our FY 1983 request is for $218 million. These resources will support new and ongoing programs in agriculture, rural development, nutrition, population planning, health, education, human resource development and other activities. Particular emphasis will be given to technology transfer, institution-building and training.

Policy and other reforms, as well as additional resources for key development projects assisted by A.I.D. and other donors, will be supported by P.L. 480 assistance. Programmed P.L. 480 resources for the Caribbean Basin countries total $123 million in FY 1982, and $121 million is requested for FY 1983. These resources will provide additional balance-of-payments support for the Caribbean Basin countries, while the local-currency generations will help finance development activities. At the same time, key foodstuffs will help countries overcome food deficits without creating disincentives to local production.

The trade and foreign investment components of the CBI are intended to have a longer-range impact. In the short run, they will assist mainly by eliminating duties on sugar imports. The identification of new export opportunities in the U.S. market and construction of the physical plants and supporting infrastructure needed to supply this market may take two or more years. This is illustrated even by the case of Jamaica, where the government is strongly committed to the type of development strategy this Administration believes is necessary to achieve sustained economic growth.

There are many opportunities available for A.I.D. to facilitate new domestic and foreign investment oriented to both external and local markets. In the less developed countries of the English-speaking Caribbean, for example, our proposed new FY 1983 projects include a sector structural adjustment program to support the identification and implementation of needed policy changes in the productive sectors of the economy, the second stage of an agricultural research project to improve small-farmer productivity, a vocational skills development program to provide the human resources needed by a growing industrial sector, and an interisland shipping and marketing project with private sector involvement to provide markets for increased agricultural production in the Eastern Caribbean.

Increasingly, we are emphasizing administrative and managerial training to improve the efficiency of both the public and private sectors. In FY 1983 we will initiate training projects in Jamaica and the Dominican Republic, and the expanded LAC regional training initiative will be continued. In Haiti, a new project will assist the government in implementing policy and administrative reforms. A.I.D. will also continue to support training for other segments of the labor force. In addition to the Caribbean project already noted, a work force development project will be implemented in FY 1983 in Panama, and a basic skills training program in Jamaica will receive additional support.

In agriculture, we will be looking for more opportunities to support crop diversification and agribusiness enterprises. New projects in FY 1983 include a Central America regional package to support research on promising nontraditional export crops and a loan fund to encourage production and export of these crops by the private sectors of these countries.

A.I.D. will also be supporting increased private sector development in industry and related sectors. Projects to be initiated in FY 1982 include a small industry loan in the Dominican Republic, an export credit loan in Costa Rica, and a regional private-sector promotion fund in Central America.

A.I.D.'s recently established Bureau for Private Enterprise (PRE) will focus its efforts on new private-sector initiatives in the Caribbean Basin countries. The PRE Bureau will provide technical assistance: (1) tc host country governments, providing policy guidance and, where required, recommending changes to improve the investment "climate" of the host country; (2) to indigenous private enterprises, to strengthen their managerial, financial, marketing and/or technical skills; and (3) to host country institutions, to develop the financial infrastructure required to support a growing private sector. PRE programs also will provide the assistance needed to bring together investors, both from the U.S. and Caribbean Basin countries, who are interested in establishing business ventures in the Basin. To support these efforts, in conjunction with commercial banks and/or other financial institutions, PRE will provide financing for the private enterprises identified, either by direct loan, through an intermediate financial institution or in a co-financing arrangement with another financial institution.

Another resource available to the U.S. Government, through the International Development Cooperation Agency (IDCA), is the Trade and Development Program, which facilitates the undertaking of feasibility studies while enhancing opportunities for U.S. firms to benefit from any new investments that might be generated by these studies. Also under IDCA is the Overseas Private Investment Corporation, whose investment promotion programs likewise can facilitate additional U.S. investment in the Caribbean Basin.

In summary, A.I.D. has both a short-run and a long-run role to play in helping to implement the Caribbean Basin Initiative. In the short run, we will be cooperating with international agencies and bilateral donors in assisting Caribbean Basin countries to overcome their balance-of-payments problems and to design and implement economic stabilization and recovery programs based on policies that stimulate productive activities and avoid the reappearance of serious fiscal and balance-of-payments disequilibria. We will work with Caribbean Basin countries to find the most efficient possible ways to use ESF resources to provide foreign exchange for key imports of raw materials and intermediate goods by the private sector. A.I.D. also has an important role to play in working with the countries of the Basin to ensure that local-currency generations from ESF resources are used primarily to support the short-term local currency credit needs of the private sector, while those from P.L. 480 resources will support public- and private-sector development activities with longer-term payoffs.

Development, we recognize, is a long-term process. We cannot focus on the short term alone. It will take several years before the benefits of the trade and investment components of the CBI have a significant impact. Meanwhile, complementary Development Assistance activities are needed now to enable public- and private-sector managers and administrators to take maximum advantage of these opportunities and to help provide the agricultural, industrial, and export credit that will be required. Other investments in human resources and in such activities as agricultural research have payoff periods that are even longer. We know that the rates of return to these investments are high, and we will continue to support them.

### MILITARY ASSISTANCE

Senator **Kasten**. Thank you for your testimony.

Mr. Secretary, your prepared testimony makes no reference to military assistance, although in the President's remarks before the Organization of American States, he did make mention of a military assistance supplemental.

Do I, therefore, understand correctly that any military assistance is not considered to be part of the Caribbean Basin Initiative, and that that will be coming to the Congress in another form?

Mr. **Enders**. That is correct, Mr. Chairman. It is an entirely separate proposition. We are working on a proposal for our military assistance supplemental to be submitted separately. We expect it to be an appropriation and not an authorization bill. That is to say, to fit within the existing authorization.

Senator **Kasten**. There are a number of people, when presented with the Caribbean Basin Initiative, who will say that this is too little, and it might also be too late. I think, without question, we see the explosive military buildup coming from Cuba and now Nicaragua. We see Soviet tanks. We see more and more Cuban advisers.

Can you tell us that this program is going to be sufficient to stem the tide which is so clearly going against us at this particular moment in Central America?

### TIMING OF ASSISTANCE PACKAGE

Mr. **Enders**. Mr. Chairman, I think there is no question that we should have done this a long time ago. We would be in much better shape if we had done it a long time ago. Probably the program that we would have had to put forward would have been less expensive than the one we put forward now.

By the same token, if we don't do this one now, the bill in the future could be really large, as we well know. If, in fact, the situation deteriorates as badly as you suggested just now, the implications for the United States, in terms of required defense efforts alone, would be very substantial, and far out of proportion of even magnitudes we are talking about here.

Let me emphasize that this is not the only step that the United States should take. We, obviously, are not proposing to try to deal with the current situation in El Salvador by tariff cuts.

What we are proposing is that those countries that are not now in the grip of an insurgency, or are not now seriously menaced by outside subversion, have a chance to improve their economic situation, to improve their social and political situation, and to put themselves beyond the reach of the kind of thing that is now happening in El Salvador, and much earlier in Nicaragua.

Costa Rica is an obvious case in point, a strong democracy, so strong that it has resisted a year of bankruptcy or near bankruptcy and then bankruptcy, a terrific compression in the living standard, without having anything more than scattered violence. But it has got to have help. It has got to have help on a really large scale, and our $70 million is designed to be inserted in a larger program that could help save that country.

It is going to have to make self-help efforts, too, cutting down its own budget deficit, raising electricity and fuel prices, et cetera. There are all kinds of things that have got to be done by Costa Rica, but that country can be, with some effort, put beyond at least many of the dangers that are in the present situation.

You have got the case of Jamaica. Jamaica had a turnaround after the 7 years of consistent economic decline, a turnaround that was voted by the public overwhelmingly, voting out a government that was bringing the Cubans in, that was training a large number of Jamaicans in Cuba in paramilitary forces. But if this government doesn't succeed, then there will be no future for democratic, pluralistic, open societies in the Caribbean area as a whole. It is a testing case.

Some results have been achieved by Mr. Seaga in the last year, but they have been plagued by the downfall and the bulk side price, so they will need more help.

This is not the only thing we must do. We must have military assistance, in the cases where there is fighting. We must have political change, as in El Salvador. We should have had it earlier in some of the other places. We must also take advantage of whatever opportunities there are to do some negotiating.

### CUBAN INTERFERENCE IN LATIN AMERICA

Senator **KASTEN**. A number of countries in the area are, as you have said, currently menaced by Soviet backed Cuban interference?

Mr. **ENDERS**. There is no question about.

Senator **KASTEN**. You mentioned that one of the factors in our policy toward the Caribbean is the reaction toward the Soviet backed Cuban interference in a number of these countries. Can you tell the subcommittee, first of all, how many countries in Central America have either Cuban military advisers or Cuban arms within their borders?

Mr. **ENDERS**. Of course, the primary country is Nicaragua. It has no less than 1,800 to 2,000 Cuban security and military advisers, and I use both words, Mr. Chairman, because they come from the Ministry of Interior and from a variety of state organs of Cuba, as well as from the armed services of Cuba.

The Soviet Union has in Managua more military personnel as advisers than we have as military assistance officials in El Salvador, just the Soviet Union. Then there are the Eastern Europeans, there is the PLO, as well as the Cubans. There are quite a lot of foreign advisers.

Weapons that have been provided by Cuba, or whose supply has been arranged for by Cuba, have been sent to insurgents in El Salvador, Honduras, Guatemala, and now there are some showing up in Costa Rica, Colombia. Practically every country in the area has been threatened in one way or another.

Senator **KASTEN**. Senator Inouye.

Senator **INOUYE**. Mr. Secretary, has the administration determined how much you are requesting for your supplemental military assistance?

Mr. **ENDERS**. Not finally. At the time the President made his speech on February 24, I gave the figures as up to $35 million for

El Salvador, up to $17 million for Honduras, with up to $8 million for other countries in the region, but our final decision has not been made on that.

### FUTURE UNITED STATES POLICY TOWARD EL SALVADOR

Senator INOUYE. If the rightist party of Robert D'Aubuisson gained control of the government in the March 28 election, do you still propose to give military assistance to this new government in El Salvador?

Mr. ENDERS. We propose, Senator, to support, through economic and military assistance, a government in El Salvador that is headed in the fundamental reforming direction that has been the basis for U.S. policy in that country under two administrations.

That is to say, we are interested in seeing a government that makes progress in controlling human rights abuses, that is moving ahead with its land reform, that is moving ahead with the political reforms, creating democratic institutions—these elections are constitutional assembly elections, and they are the first step in that direction—asserting effective control over the armed forces.

All of those are directions that we think the Salvadoran Government should move in, and our assistance would be designed to support such a movement. That will be the message that we will give to the new Salvadoran Government when they emerge from this election, as well as the old one.

Senator INOUYE. Do you agree that the organization headed by D'Aubuisson is in tune with your policy?

Mr. ENDERS. I think that the policy to be adopted by a government that emerges from that election will have to be examined and debated at that time, Senator. But I don't think there is any question at all about the kind of government, the kind of direction that we can support in El Salvador.

### ALLOCATION OF THE ASSISTANCE PROGRAM

Senator INOUYE. How do you propose to allocate this $350 million ESF assistance program?

Mr. ENDERS. $70 million of it would go to Costa Rica, again in the context only of internationally headed stabilization program as negotiated through the International Monetary Fund, whose sessions are underway. The Dominican Republic would receive $40 million of it.

El Salvador would receive $128 million, which will bring the total El Salvador economic assistance in fiscal year 1982 to $232.5 million. That will still not be enough, Senator Inouye, to prevent a decline in the income of El Salvador again this year.

Over the last 3 years, the income of El Salvador has fallen by 20 percent as a result of commodity price changes and the war, the flight of capital. As you know, the insurgent strategy is to strike against the economy, and they have destroyed 1,000 buses in the last 2 years, to give you an idea of the damage that they have done to the capital stock, power lines, bridges. This sum we think is needed to prevent a catastrophic fall in the economy of that country.

A small amount to Haiti, $5 million, bringing our total assistance to Haiti to $36.5 million.

Thirty-five million dollars to Honduras, a country that is just returning to a democratic system after 12 years of military rule. There was an election with very wide popular support there. A country that has serious economic difficulties, and is also threatened by the creation of a united left under Cuban auspieces.

Fifty million dollars for Jamaica for the purposes I indicated earlier, to make sure that they get through this recession year and keep on toward working their way out of the deep depression that they fell into in the Manley years.

Ten million for Belize, a small country threatened by a number of forces, economic as well as political, just in its first year of independence.

Ten million dollars for the Caribbean islands as a whole, each of them have been hit by the present circumstances in various ways. We have $2 million in regional programs for free labor development.

## CONTRIBUTIONS FROM OTHER COUNTRIES

Senator **Inouye**. What resources will be made available by Canada, Mexico, and Venezuela?

Mr. **Enders**. We received confirmation in New York this weekend that the Mexicans and the Canadians will continue their oil facility under which last year they gave $700 million together. We expect them to give the same amount this year.

In addition to that, Mexico is adding new trade preferences. Canada has a program for the area of some $500 million over a 5-year period, it is building up to that, it is doubling its aid level overall. Given that Canada is a country one-tenth the size of this country, that is a substantial program.

I remarked before you came in, I think, Senator Inouye, that Colombia, a country with less than $1,000 in income, has come up with a substantial package worth over $50 million for the countries of the area, quite a gesture.

We think the multilateral banks can do more. There are two regional groups that are organizing, and they expect to increase their outlays.

I have been to Japan, and I have been told that the Japanese are looking for ways to increase their own economic aid to the area, which is now on the order of $25 million, and could be increased substantially.

The Europeans have rather important programs, and they expect to increase them. We have just had Mitterand here who welcomed this program, and told us that he expected both France and the European Community countries as a whole to do more.

## FUTURE ASSISTANCE PROGRAMS

Senator **Inouye**. The President has indicated that this will be a sustained commitment over a long period of years. Do you have any projections for fiscal years 1984, 1985, and 1986?

Mr. **Enders**. In terms of aid?

Senator **Inouye**. Yes.

Mr. **Enders**. We have a fiscal year 1983 budget. You will notice that the total amount of economic assistance is less than the amount that is projected for this year, if you include in this year the supplemental. We think that somewhat higher levels are required, but not necessarily levels at this high point.

It is a sustained commitment in the sense that the trade measures and the investment measures will not work, Senator Inouye, unless they are available and reliable to investors and businesses in general over a long period of time.

Senator **Inouye**. Thank you very much.

Thank you, Mr. Chairman.

Senator **Kasten**. For the benefit of the members of the subcommittee, we will try to stay roughly within 5 minutes for questions per member, and we will try to make a number of rounds of questions. Secretary Enders is able to be with us for certainly an hour or so longer, if there are questions.

Senator Rudman.

### MEXICAN ASSISTANCE

Senator **Rudman**. Thank you, Mr. Chairman.

Mr. Secretary, I wonder if you might just tell me, from your statement, I assume that Mexico, Venezuela, and Colombia, are going to eliminate import duties to these nations, such as we are intending to do; is that accurate?

Mr. **Enders**. They do it in a different way. To be quite precise, Mexico, which has rather high duties, actually rebates those duties to the countries involved.

Senator **Rudman**. The net effect is the same.

Mr. **Enders**. The net effect is a cash flow. Actually, the trade doesn't grow as much as it otherwise would because these are, as I said, very high duties.

Senator **Rudman**. What about concessional oil pricing?

Mr. **Enders**. They will continue that. The current oil facility, in effect, rebates some 30 percent of the total cost of the oil to the countries involved. We have been told that in spite of the lower price of oil, they will maintain that facility, and that is substantial in importance.

### ROLE OF THE EXPORT-IMPORT BANK

Senator **Rudman**. This morning, in the President's statement, he has essentially said that he wants the Export-Import Bank to do more to aid these countries and their private sectors in importing critical materials. Yet, coming before this subcommittee in the 1983 budget request for Ex-Im Bank will be a reduction from last year's level, again.

So the President is going to ask us, in his request, to go from the fiscal year 1982 level of $4,400 to $3,830 million. I simply want you to help me with a very confused mind here.

How are we supposed to be commiting more to help the Caribbean Basin countries on the one hand, when another arm of the administration is going to come in here and ask us to reduce further the Ex-Im Bank loan authority?

Mr. **Enders**. We are not asking for additional Ex-Im Bank authority for the Caribbean Basin, not a special one. On the other hand, the bank will look much more vigorously than it has, and in a more forthcoming way, on the guarantee of supplier credits for the area. The supplier credits have become, in fact, a major problem in the area.

A number of the countries are so bad off that regular 1-year credits are very hard to obtain on a sustained basis. This doesn't help countries like El Salvador that are really in desperate condition economically, or for the moment even Costa Rica until it gets itself a stabilization program. But a number of other countries, it will help.

Senator, you are absolutely right, I think it is indicative of the budget squeeze that we are all in. The overall budget is still in our proposal being cut while we are rearranging what we use it for.

Senator **Rudman**. It is my understanding that they want to reduce guarantees by $1,200,000,000. I will only say to you that it is all well and good to have a statement saying that we want to encourage greater economic activity in the area, and one of the ways we would like to do it is through the Ex-Im Bank. But I think it is inconsistent to do some of these other things on the other side, thus placing a greater drain on the Ex-Im Bank in trying to fulfill some new responsibilities. I will just make that as an observation.

Mr. **Enders**. It has got to cut down its other activities even more.

## TAX INCENTIVES TO RELOCATE IN CARIBBEAN

Senator **Rudman**. We have had testimony here that that cutdown has been very deleterious for many American companies, and so we simply exacerbate the problem.

Let me just go to one further question. One thing that was said here, I believe by you, Mr. deKieffer, but either one of you can answer the question.

It is my understanding, if I understood your testimony correctly, that you are going to propose to extend investment credits in our Tax Code, for domestic American corporations and I assume other incentives to those companies which engage in economic activity in the Caribbean Basin.

To give labor intensive industries domestic tax credit equivalency to locate facilities in the Caribbean Basin will have an inevitable impact on employment in this country because, unquestionably, as a corporate manager putting up a new labor intensive facility to employ 500 people, I would rather do it with the wage structure in Guatemala than I would with the wage structure in Nashua, N.H., or Burlington, Vt.

How do you answer that?

Mr. **deKieffer**. As I mentioned in my comments earlier, Senator, one of the factors that will still be in place with the Caribbean Basin Initiative is the so-called escape clause in terms of the sections 201 and 203 of the Trade Act of 1974.

So, to the extent that labor intensive American industries are, in fact, hurt, they can seek and gain relief by petitioning through the International Trade Commission, if they can demonstrate that they have been injured by increased imports.

Senator **Rudman**. I can tell you that this would not be good enough for me because, when you are trying to create employment in this country, with declining employment, I don't want those jobs to leave the country, and then have to start petitioning the bureaucracy, which I have had some experience with, trying to get the jobs back.

I can tell you, I will not only oppose that section of the Caribbean Basin Initiative, but I will try to build opposition to it. I don't think that we should be exporting jobs through tax credits.

I think that is one part of your plan that I don't like, even though I support most of it.

Mr. **Enders**. Senator, perhaps I could put this in a different perspective for you.

At the present time there are some things in the Caribbean Basin which attract investment, as you say, the Guatemalan wage rate. There are other things that don't attract investment. For example, the transport rates in the area are quite unfavorable in many places at the present time. Skilled labor is not available on the same scale or the same sophistication as in the United States. You balance all these things out.

A number of the countries of the area offer tax incentives for investment. But under our present tax laws, Jamaica offers zero taxes on an American company located down there, and the company makes some profits and then remits them, it does not receive a credit. Under our tax law the U.S. taxes the remitted profit exactly as if there had been no tax incentive at all. Jamaica's tax incentive goes into the U.S. Treasury.

Our purpose is to offset that to some degree by the best way we could find. All this does is make the area almost equal to the United States, not more attractive than the United States. It is getting the same tax credit as the United States. It will not make it more attractive than the United States, and it will offset somewhat undesired effect of the United States collecting the equivalent of these taxes.

Senator **Rudman**. I understand your position, Mr. Enders.

My time is up, Mr. Chairman. I just want to comment that I have seen companies in New England, with the absence of tax incentives, moving to Mexico with small products that are labor intensive, and that the cost of transport is not significant.

I, frankly, think that we should look very carefully at exporting jobs at this time. Although the rest of the project and the initiative I agree with, I think that this is one aspect that causes great dissatisfaction among many people. I don't think you can count how many jobs this might cost this country, and it is not good to tell people, "If it does cost you your job, there is an administrative process to get your job back." That is not very good for people who are about to run out of employment.

I do suggest this is one section that we really ought to look at. I appreciate your candor.

Thank you, Mr. Chairman.

Senator **Kasten**. Senator Johnston.

### PUERTO RICO AND THE VIRGIN ISLANDS

Senator JOHNSTON. Thank you, Mr. Chairman.

Along that same line, Mr. Secretary, or Mr. deKieffer, either one of you as appropriate.

Puerto Rico has section 936 and Virgin Islands has section 934, I believe those numbers are, which give them the special tax credit. What you envision is the same kind of protection for other nations in the Caribbean Basin?

Mr. DEKIEFFER. No, not exactly, Senator. In the case of both Puerto Rico and the Virgin Islands, our investment there is further encouraged by the accelerated cost recovery provisions of the Economic Recovery Tax Act of 1981 signed by the President last year.

Specifically, the act extends the provisions of ACRS to properties predominantly in Puerto Rico and other possessions, which are used or controlled by certain U.S. taxpayers, that are not allowed these benefits under present law. So, there will remain, in effect, additional provisions for Puerto Rico and the Virgin Islands.

Senator JOHNSTON. That is ACRS principally?

Mr. DEKIEFFER. That is correct.

Senator JOHNSTON. That is the new provision in the new tax code?

Mr. DEKIEFFER. That is correct.

Senator JOHNSTON. Other than that, it would be pretty well the same?

Mr. DEKIEFFER. The leasing provisions.

Senator JOHNSTON. The leasing provision, Mr. Dole said that it is going to be repealed on February 18. [General laughter.]

Mr. ENDERS. Then this is a proposal to repeal it for everybody, including Puerto Rico.

The difference between Puerto Rico, the Virgin Islands, and the Caribbean countries, under this proposal, there would only be one tax incentive for the Caribbean countries, the investment tax credit.

Senator JOHNSTON. My colleague spoke of the loss of jobs in the United States, and that also includes Puerto Rico and the Virgin Islands. They are American citizens, and they cannot survive economically without some real advantage over their neighbors down there.

After all, Barbados and the other nations down there, they don't have minimum wage, and they don't have the EPA, and other expenses of doing business which we, as the American Government, impose on them. So, I hope that they will continue to have the real advantages they do because, without them, their business will leave. It is just that simple.

### DUTY-FREE ENTRY FOR CARIBBEAN PRODUCTS

Mr. ENDERS. You are exactly right, Senator.

Senator JOHNSTON. Mr. Secretary, as I understand, 87 percent of the goods in the Caribbean Basin are presently duty free. If that is true, then where do you expect releasing of the duty on the rest to have an impact?

What goods would you see being manufactured and imported into the United States, and how much, particularly in terms of dollars and jobs, would you see that producing?

Mr. ENDERS. To put that into perspective, Senator, if in fact one of the countries down there exported only coffee to us, then 100 percent of its export to us would be duty free.

The reason that figure is so high is that the countries make mainly traditional kinds of staple products that largely enter duty free. We have in addition to that, as Mr. deKieffer said in his statement, used our system of preferences in order to give additional advantages in some cases.

So, what we are looking at is opening the full range of the American market, with the exception of those products that come under the textile and apparel agreements, in order to present for a limited period very substantial market opportunities.

We have attempted estimates, I think the USTR has attempted estimates of the trade impact of that. Frankly, I don't think they are worth anything. I don't really know on what basis one can give an accurate figure on this because we don't know how well the islands and the mainland countries will respond. We don't know yet, also, how well the U.S. industry and the European industry will take advantage of this. We have not put a number on it, Senator.

Senator JOHNSTON. Not in terms of numbers, but what products, potentially?

Mr. ENDERS. We think that a range of light manufactured products, as well as the traditional ones, can be introduced. Indeed, that is already happening to some degree. The Barbados is just beginning to do a little bit of minor electronics stuff. Baseball gloves are appearing in Haiti.

A few of those products are beginning to appear, and then we want to get the entrepreneurs' attention to this, and see whether they can't look across the border and see what other light manufactured products, but not automobiles, obviously, or not anything that is heavily capital intensive.

Senator JOHNSTON. Not sugar, surely. [General laughter.]

Mr. ENDERS. And not more sugar, Senator, than has come in in peak years in the past.

Senator JOHNSTON. Along the lines of Puerto Rico and the Virgin Islands, businessmen presently can take, as you know, tax deductions for conventions held in those areas.

Mr. ENDERS. Right.

Senator JOHNSTON. Would that same advantage be extended to other areas?

Mr. ENDERS. Senator, you may know that it has been extended by treaty to Jamaica. We have taken the position that we are prepared to discuss with, negotiate with, other countries in the area for new tax treaties that could contain a number of provisions that we want to have in them, such as discovery and disclosure provisions, as well as a number of provisions that they want in them, which in some cases would be the convention tax relief provision.

I don't know how many of those treaties will, in fact, be negotiated, but we would propose to be in touch with the relevant committees before undertaking any such negotiations.

Senator JOHNSTON. Let me just say, I am sure you are aware that there is an acute distress in Puerto Rico particularly, and to a lesser extent in the Virgin Islands, because of the cutbacks in the budget recently, as well as the general economic slowdown.

Anything that is done to take away their advantages or share those advantages with other areas is going to accentuate that distress. I just urge you to be very sensitive to that as we flesh out the provisions of the Caribbean Basin Initiative.

Mr. ENDERS. I agree entirely, Senator.

You may have noticed that the Governor of Puerto Rico strongly supported the President's initiative, and he has worked with us very closely in developing it. In fact, he was the person with whom it was discussed almost a year ago, before anybody else. There has been a major effort to reach a balance of advantages with Puerto Rico. You are absolutely right, it is a very sensitive matter.

Senator KASTEN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

Listening to the answers to Senator Rudman and Senator Johnston, I wonder if I could get a breakdown by country of those exports which are now subject to duty, but under the CBI would no longer be. Could that be submitted for the record?

Mr. ENDERS. Yes Senator.

Senator LEAHY. Do you have it now?

### EXPORT/IMPORT CHART

Mr. DEKIEFFER. Senator, I have a chart showing the total exports and imports for each of the countries, but it is not broken down into those that are eligible for GSP treatment and those who are not eligible for GSP on the chart that I have with me today. We certainly can submit it for the record.

Senator LEAHY. You would be doing that anyway, would you not?

Mr. DEKIEFFER. Certainly.

[The information follows:]

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM GUATEMALA
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.0 | 23,683,956 | 2% | 1,562,475,937 |
| 10762 | | Beef,veal,prepared,not processed,nspf,valued over $.30 per lb | 10.0 | 54,938 | 2% | 2,225,512 |
| 11775 | | Cheese nes, cheese substitutes, valued not over 25¢ per lb. | 2.9 | 1,330 | 13% | 10,261 |
| 11788 | | Cheese nes, cheese substitutes valued over 25¢ per lb | 10.0 | 31,951 | 0% | 113,035,227 |
| 12161 | | Bovine leather, not fancy | 2.0 | 116,106 | 0% | 95,262,794 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 50.5 | 9,038 | 0% | 15,614,937 |
| 13693 | | Onions, fresh, chilled, or frozen, nspf, not reduced in size | 15.3 | 13,954 | 0% | 20,261,333 |
| 13750 | | Squash, fresh, chilled, or frozen, not reduced in size | 2.7 | 18,810 | 0% | 13,902,958 |
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.1 | 1,437 | 0% | 2,584,551 |
| 13840 | | Vegetables,nspf,fresh,chilled or frozen,cut,sliced or reduced in size | 17.6 | 592 | 0% | 1,584,533 |
| 13845 | | Vegetables,nspf,fresh,chilled or frozen and cut,sliced or otherwise reduce | 17.5 | 8,538 | 0% | 2,828,021 |
| 14558 | | Nuts, edible, nspf, shelled or blanched | 1.6 | 307,919 | 15% | 1,993,018 |
| 14800 | | Mangoes,fresh,entering anytime except november 1 - april 30,inclusive | 6.2 | 22,557 | 0% | 9,891,036 |
| 14817 | | Cantaloupes, fresh, entered apr 1 to july 31 and sept 16 to nov 30, incl | 35.0 | 1,863 | 0% | 15,134,956 |
| 14896 | | Pineapples, fresh, in packages other than crates | 5.8 | 8,482 | 0% | 5,578,212 |
| 14898 | | Pineapples, prepared or preserved | 1.5 | 12,463 | 0% | 116,302,079 |
| 15570 | | Honey | 1.9 | 1,323 | 0% | 21,083,527 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 21.5 | 1,500 | 0% | 570,410 |
| 17028 | | Cigarette leaf, not stemmed, oriental or turkish type, not over 8.5 inches | 8.0 | 272,283 | 0% | 242,059,445 |
| 17032 | | Cigarette leaf, not stemmed, not mixed or not over 35% wrapper tobacco nes | 16.8 | 111,196 | 0% | 29,332,827 |
| 17060 | | Scrap tobacco | 11.9 | 1,124,790 | 1% | 98,572,264 |
| 17080 | | Tobacco, manufactured or not manufactured, nspf | 11.8 | 2,582,239 | 5% | 51,349,940 |
| 17536 | | Poppy seed | 0.2 | 60,326 | 3% | 1,910,932 |
| 18453 | | Soy bean and other vegetable oil cake and oil cake-meal,nspf | 4.1 | 422,625 | 21% | 2,005,690 |
| 19218 | | Fresh cut roses;bouquets,wreaths,sprays or similar articles made from such | 8.0 | 75,530 | 2% | 4,726,640 |
| 19219 | | Fresh cut flowers,nes; bouquets,wreathes,sprays or similar articles made f | 8.0 | 77,337 | 0% | 23,207,266 |
| 47510 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.3 | 19,655,739 | 0% | 59,462,463,772 |
| 53227 | | Ceramic floor and wall tiles, except mosaic, unglazed | 24.0 | 2,560 | 0% | 18,274,012 |
| 65012 | | Knives w stls st handles con nickel or ov 10% manganese, nes | 8.8 | 5,734 | 0% | 3,032,923 |
| 68035 | | Ball or roller bearing and parts, nes | 8.6 | 596 | 0% | 295,920,858 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 69,893 | 0% | 164,679,951 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 22,806 | 0% | 3,418,030,966 |
| 69210 | | Passenger automobiles, snowmobiles, trucks valued under $1000, and other m | 2.9 | 64,700 | 0% | 13,463,225,906 |
| 70027 | | Welt footwear of leather, over $5 n/o $6.80 per pair | 5.0 | 28,593 | 6% | 516,194 |
| 70029 | | Welt footwear of leather,nes,valued over $6.80 per pair | 5.0 | 453,797 | 0% | 108,158,475 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 298,620 | 0% | 607,243,508 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 635,443 | 0% | 743,458,083 |
| 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.0 | 140,379 | 0% | 681,664,688 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM GUATEMALA
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 70206 | | Knit headwear of cotton | 19.5 | 251 | 0% | 589,944 |
| 70310 | | Headwear of man-made fibers, not part braid, knit | 23.8 | 5,146 | 0% | 10,273,645 |
| 70620 | | Luggage, handbags, and flat goods of textila materials, wholly or in part | 19.4 | 660 | 0% | 3,693,284 |
| 70622 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 14.0 | 4,838 | 0% | 14,472,910 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 11,730 | 0% | 165,743,563 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.1 | 560 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 2,718 | 0% | 39,906,358 |
| 73722 | | Dolls (with or without clothing) and parts of dolls | 16.8 | 14,728 | 0% | 124,811,857 |
| 99995 | | Under $251 formal and informal entries estimated | 29.0 | 331,000 | 0% | 286,202,700 |

TOTAL FROM GUATEMALA
AGRICULTURE: 29,023,083
INDUSTRIAL : 21,750,491
TOTAL : 50,773,574

U.S. IMPORTS FROM BELIZE
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.2 | 334,033 | 0% | 1,562,475,937 |
| 14800 | | Mangoes,fresh,entering anytime except november 1 - april 30,inclusive | 14.3 | 468,803 | 5% | 9,891,036 |
| 45228 | | Grapefruit oil | 6.0 | 7,599 | 17% | 45,050 |
| 45244 | | Orange oil | 6.0 | 16,395 | 1% | 2,306,481 |
| 52032 | | Diamonds not over 1/2 carat, cut, not set, suitable for jewelry | 1.0 | 52,892 | 0% | 798,399,862 |
| 52033 | | Diamonds over 1/2 carat, cut, not set, suitable for jewelry | 2.0 | 246,696 | 0% | 457,582,977 |
| 65054 | | Spoons with stainless steel handles, under 25¢ each, but not over 10.2 inc | 17.0 | 348 | 0% | 17,613,007 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 3,045 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 1,402 | 0% | 39,906,358 |
| 99995 | | Under $251 formal and informal entries estimated | 20.6 | 16,800 | 0% | 286,202,700 |

TOTAL FROM BELIZE
AGRICULTURE: 802,836
INDUSTRIAL : 345,177
TOTAL : 1,148,013

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM EL SALVADOR
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.0 | 5,495,746 | 0% | 1,562,475,937 |
| 11735 | | Gjetost cheeses from goat's whey and over 20% of cow's milk | 10.0 | 1,850 | 0% | 549,509 |
| 11788 | | Cheese nes, cheese substitutes valued over 25¢ per lb | 10.0 | 44,223 | 0% | 113,035,227 |
| 12161 | | Bovine leather, not fancy | 2.0 | 10,894 | 0% | 95,262,794 |
| 13760 | | Tomatoes, fresh or chilled, entered mar 1 to jul 14 and sept 1 to nov 14, | 10.5 | 6,733 | 0% | 82,743,669 |
| 13845 | | Vegetables,nspf,fresh,chilled or frozen and cut,sliced or otherwise reduce | 17.5 | 2,407 | 0% | 2,828,021 |
| 15570 | | Honey | 2.3 | 36,466 | 0% | 21,083,527 |
| 17060 | | Scrap tobacco | 19.0 | 410 | 0% | 98,572,264 |
| 17064 | | Cigarettes,nspf | 32.0 | 294 | 0% | 6,265,836 |
| 17066 | | Cigars each valued 15¢ or more | 10.8 | 2,058 | 0% | 34,591,486 |
| 17072 | | Cigars valued under 15¢ each and cheroots | 32.2 | 1,320 | 0% | 1,685,198 |
| 22250 | | Blinds,shutters,curtains,screens,and shades, all the foregoing, of unspun | 17.0 | 624 | 0% | 4,222,013 |
| 41020 | | Colors,dyes,and stains(except toners),whether water soluble or not provide | 21.7 | 11,438 | 0% | 5,130,808 |
| 68527 | | Citizens band(cb) radio transceivers (except hand-held) | 15.0 | 626 | 0% | 36,177,259 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 15,699,110 | 6% | 266,975,827 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 5,568,512 | 3% | 164,679,951 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 42,427,195 | 1% | 3,418,030,966 |
| 69210 | | Passenger automobiles, snowmobiles, trucks valued under $1000, and other m | 2.9 | 3,705 | 0% | 13,463,225,906 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 6,804 | 0% | 607,243,508 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 11,259 | 0% | 743,458,083 |
| 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.0 | 257,325 | 0% | 681,664,688 |
| 70060 | | Other footwear,nes, less than 10% rubber or plastics | 20.0 | 2,304 | 0% | 607,949,118 |
| 70432 | | Lace, net, or ornamented gloves of man-made fibers | 30.0 | 1,580,620 | 6% | 26,885,669 |
| 70465 | | Gloves, not lace, net, or ornamented, of wool, over $4/doz. pairs | 20.3 | 88,064 | 3% | 2,617,095 |
| 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 8.0 | 7,072 | 0% | 28,442,667 |
| 70622 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 14.1 | 311 | 0% | 14,472,910 |
| 70623 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 6.5 | 400 | 0% | 7,916,809 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 906 | 0% | 165,743,563 |
| 72044 | | Other dials and parts thereof, nspf | 23.1 | 7,825 | 9% | 87,944 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 5,201 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 2,278 | 0% | 39,906,358 |
| 73722 | | Dolls (with or without clothing) and parts of dolls | 16.8 | 376,203 | 0% | 124,811,857 |
| 99995 | | Under $251 formal and informal entries estimated | 22.4 | 132,400 | 0% | 286,202,700 |

| TOTAL FROM EL SALVADOR | |
|---|---|
| AGRICULTURE: | 5,602,401 |
| INDUSTRIAL : | 66,190,182 |
| TOTAL : | 71,792,583 |

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM HONDURAS
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.3 | 63,379,532 | 4% | 1,562,475,937 |
| 10762 | | Beef,veal,prepared,not processed,nspf,valued over $.30 per lb | 10.0 | 162,272 | 7% | 2,225,512 |
| 12161 | | Bovine leather, not fancy | 1.0 | 4,806 | 0% | 95,262,794 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 77.1 | 6,550 | 0% | 15,614,937 |
| 13840 | | Vegetables,nspf,fresh,chilled or frozen,cut,sliced or reduced in size | 17.5 | 3,990 | 0% | 1,584,533 |
| 14722 | | Limes,fresh or in brine | 9.0 | 29,939 | 1% | 4,848,600 |
| 14824 | | Watermelons,fresh | 20.0 | 3,154 | 0% | 11,036,177 |
| 14896 | | Pineapples, fresh, in packages other than crates | 5.7 | 4,969,366 | 89% | 5,578,212 |
| 15570 | | Honey | 2.6 | 50,899 | 0% | 21,083,527 |
| 16546 | | Pineapple juice, not mixed, concentrated more than 3.5 degrees, nov 1% eth | 8.8 | 612,527 | 3% | 17,720,409 |
| 17010 | | Wrapper tobacco, not stemmed | 10.2 | 1,575,084 | 19% | 8,212,061 |
| 17015 | | Wrapper tobacco, stemmed | 4.6 | 199,585 | 59% | 337,726 |
| 17025 | | Filler tobacco mixed with ov 35% wrapper,stemmed | 23.1 | 43,685 | 100% | 43,685 |
| 17040 | | Filler tobacco, including cigar leaf, not stemmed, not mixed or not over 3 | 8.5 | 494,282 | 14% | 3,413,763 |
| 17045 | | Filler tobacco, including cigar leaf, stemmed, not mixed or not over 35% | 9.8 | 793,223 | 20% | 3,905,224 |
| 17060 | | Scrap tobacco | 22.5 | 909,384 | 1% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 12.7 | 6,576,841 | 19% | 34,591,486 |
| 17072 | | Cigars valued under 15¢ each and cheroots | 48.5 | 91,138 | 5% | 1,685,198 |
| 17080 | | Tobacco, manufactured or not manufactured, nspf | 11.8 | 578,606 | 1% | 51,349,940 |
| 18820 | | Balsams, styrax, natural and not artificially mixed other substances | 3.7 | 296,037 | 97% | 305,423 |
| 19218 | | Fresh cut roses;bouquets,wreaths,sprays or similar articles made from such | 8.1 | 272 | 0% | 4,726,640 |
| 20095 | | Wood dowel rods and pins advanced in condition | 15.6 | 23,166 | 9% | 258,107 |
| 20685 | | Toothpicks of wood | 6.0 | 9,016 | 0% | 2,483,488 |
| 24023 | | Plywood, other wood face nes, no face finish or with a clear face finish | 10.0 | 122,143 | 0% | 174,609,076 |
| 53364 | | Household ware over $56 of nonbone chinaware or of subporcelain,available | 17.0 | 300 | 0% | 63,936,879 |
| 54638 | | Glassware, nes, pressed and toughened (tempered), chiefly used for prepari | 12.5 | 1,974 | 0% | 15,838,100 |
| 68536 | | Record players,phonographs,record changers,turntables,and parts | 5.3 | 111,913 | 0% | 200,291,171 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 973 | 0% | 3,418,030,966 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.4 | 509 | 0% | 607,243,508 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 4,659 | 0% | 743,458,083 |
| 70310 | | Headwear of man-made fibers, not part braid, knit | 23.8 | 314,383 | 3% | 10,273,645 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 12,987 | 0% | 281,436,480 |
| 73722 | | Dolls (with or without clothing) and parts of dolls | 16.8 | 21,294 | 0% | 124,811,857 |
| 99995 | | Under $251 formal and informal entries estimated | 100.0 | 76,000 | 0% | 286,202,700 |

TOTAL FROM HONDURAS

| | |
|---|---|
| AGRICULTURE: | 80,781,172 |
| INDUSTRIAL : | 699,317 |
| TOTAL : | 81,480,489 |

### 1980 U.S. IMPORT LISTING
### U.S. IMPORTS FROM NICARAGUA
### NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 1.8 | 62,516,828 | 4% | 1,562,475,937 |
| 12161 | | Bovine leather, not fancy | 2.0 | 57,353 | 0% | 95,262,794 |
| 13516 | | Beans other than lima, fresh, chilled, or frozen, not reduced in size | 5.4 | 31,202 | 0% | 8,998,930 |
| 13575 | | Corn-on-the-cob, fresh, chilled, or frozen, not reduced in size | 25.0 | 16,110 | 9% | 170,524 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 36.7 | 1,264 | 0% | 15,614,937 |
| 13845 | | Vegetables,nspf,fresh,chilled or frozen and cut,sliced or otherwise reduce | 17.5 | 2,250 | 0% | 2,828,021 |
| 17010 | | Wrapper tobacco, not stemmed | 10.2 | 1,983,536 | 24% | 8,212,061 |
| 17015 | | Wrapper tobacco, stemmed | 5.8 | 18,020 | 5% | 337,726 |
| 17040 | | Filler tobacco, including cigar leaf, not stemmed, not mixed or not over 3 | 7.4 | 714,556 | 21% | 3,413,763 |
| 17045 | | Filler tobacco, including cigar leaf, stemmed, not mixed or not over 35% | 12.9 | 112,176 | 3% | 3,905,224 |
| 17060 | | Scrap tobacco | 19.1 | 31,725 | 0% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 13.9 | 1,084,799 | 3% | 34,591,486 |
| 47505 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.2 | 578,837 | 0% | 10,185,304,722 |
| 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 7.9 | 692 | 0% | 28,442,667 |
| 70607 | | Leather handbags valued not over $20 each,not of reptile leather | 10.0 | 463,613 | 0% | 94,349,984 |
| 70613 | | Leather luggage,fitted and not fitted,not of reptile leather | 9.8 | 656 | 0% | 24,037,618 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.1 | 363 | 0% | 165,743,563 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 601,516 | 0% | 281,436,480 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 900 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 1,538 | 0% | 39,906,358 |

TOTAL FROM NICARAGUA

| | | |
|---|---|---|
| AGRICULTURE | : | 66,569,819 |
| INDUSTRIAL | : | 1,648,115 |
| TOTAL | : | 68,217,934 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM COSTA RICA
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 1.9 | 59,892,910 | 4% | 1,562,475,937 |
| 11970 | | Eggs not in the shell, other than dried | 3.2 | 13,638 | 9% | 148,873 |
| 12161 | | Bovine leather, not fancy | 1.9 | 420,973 | 0% | 95,262,794 |
| 13542 | | Carrots over 4 inches long, fresh, chilled, or frozen, not reduced in size | 3.3 | 700 | 0% | 10,959,676 |
| 13693 | | Onions, fresh, chilled, or frozen, nspf, not reduced in size | 9.5 | 1,744 | 0% | 20,261,333 |
| 13760 | | Tomatoes, fresh or chilled, entered mar 1 to jul 14 and sept 1 to nov 14, | 9.1 | 464 | 0% | 82,743,669 |
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.0 | 3,737 | 0% | 2,584,551 |
| 13840 | | Vegetables,nspf,fresh,chilled or frozen,cut,sliced or reduced in size | 17.5 | 469,567 | 30% | 1,584,533 |
| 13845 | | Vegetables,nspf,fresh,chilled or frozen and cut,sliced or otherwise reduce | 17.5 | 115,195 | 4% | 2,828,021 |
| 14882 | | Pears, fresh or in brine, entering jul 1 to mar 31, incl | 3.3 | 1,500 | 0% | 861,623 |
| 14896 | | Pineapples, fresh, in packages other than crates | 6.1 | 102,705 | 2% | 5,578,212 |
| 15265 | | Papaya fruit pastes and fruit pulps | 17.5 | 96,360 | 67% | 144,597 |
| 16184 | | Pepper, capsicum or cayenne or red, ground | 16.2 | 390 | 0% | 214,049 |
| 17032 | | Cigarette leaf, not stemmed, not mixed or not over 35% wrapper tobacco nes | 13.6 | 28,738 | 0% | 29,332,827 |
| 17045 | | Filler tobacco, including cigar leaf, stemmed, not mixed or not over 35% | 8.7 | 402 | 0% | 3,905,224 |
| 17060 | | Scrap tobacco | 10.7 | 461,166 | 0% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 13.6 | 322,667 | 1% | 34,591,486 |
| 17080 | | Tobacco, manufactured or not manufactured, nspf | 17.5 | 331 | 0% | 51,349,940 |
| 19219 | | Fresh cut flowers,nes; bouquets,wreathes,sprays or similar articles made f | 8.0 | 53,175 | 0% | 23,207,266 |
| 24023 | | Plywood, other wood face nes, no face finish or with a clear face finish | 10.0 | 866,158 | 0% | 174,609,076 |
| 40900 | | Mixtures containing finished benzenoid chemicals or products | 23.1 | 1,059 | 0% | 13,254,174 |
| 53332 | | Fine-grained earthenware candy boxes,decanters,punch bowls,pretzel dishes, | 12.6 | 1,343 | 0% | 5,338,266 |
| 53339 | | Fine-grained earthenware articles nspf,not available in specific sets | 22.0 | 1,836 | 0% | 23,126,742 |
| 54327 | | Ordinary float glass, not over 15/32 inch thick, over 7 sq. ft. in area, n | 6.1 | 5,622 | 0% | 7,010,529 |
| 60940 | | Round wire of other than alloy iron or steel, under 0.060 inch in diameter | 8.5 | 30,375 | 0% | 56,028,213 |
| 60970 | | Wire of other than alloy iron or steel, not coated, nspf | 9.0 | 3,542 | 0% | 4,136,183 |
| 65012 | | Knives w stls st handles con nickel or ov 1o% manganese, nes | 9.0 | 357 | 0% | 3,032,923 |
| 68035 | | Ball or roller bearing and parts, nes | 8.9 | 313 | 0% | 295,920,858 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 29,128 | 0% | 266,975,827 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 3,669,113 | 2% | 164,679,951 |
| 69210 | | Passenger automobiles, snowmobiles, trucks valued under $1000, and other m | 3.0 | 400 | 0% | 13,463,225,906 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 1,314,734 | 0% | 607,243,508 |
| 70060 | | Other footwear,nes, less than 10% rubber or plastics | 20.0 | 990 | 0% | 607,949,118 |
| 70613 | | Leather luggage,fitted and not fitted,not of reptile leather | 9.8 | 14,154 | 0% | 24,037,618 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 350 | 0% | 281,436,480 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 870 | 0% | 19,521,616 |
| 99995 | | Under $251 formal and informal entries estimated | 55.4 | 93,000 | 0% | 286,202,700 |

TOTAL FROM COSTA RICA

| | |
|---|---|
| AGRICULTURE: | 61,986,362 |
| INDUSTRIAL : | 6,033,344 |
| TOTAL : | 68,019,706 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM PANAMA
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.1 | 2,953,415 | 0% | 1,562,475,937 |
| 12161 | | Bovine leather, not fancy | 1.9 | 46,935 | 0% | 95,262,794 |
| 16540 | | Grape juice, not mixed, concentrated or not concentrated, nov 1% ethyl alc | 5.0 | 3,301 | 0% | 1,325,275 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 15.4 | 20,475 | 4% | 570,410 |
| 20667 | | Wood blinds, shutters, screens and shades, nes, with or without their hard | 17.0 | 1,615 | 0% | 10,402,445 |
| 24023 | | Plywood, other wood face nes, no face finish or with a clear face finish | 10.0 | 43,108 | 0% | 174,609,076 |
| 41150 | | Alkaloids and their salts and other derivatives nes,nspf | 9.8 | 8,935 | 59% | 15,215 |
| 41214 | | Dermatological agents and local anesthetics | 13.9 | 14,934 | 2% | 782,262 |
| 47505 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.3 | 41,058 | 0% | 10,185,304,722 |
| 52032 | | Diamonds not over 1/2 carat, cut, not set, suitable for jewelry | 1.0 | 327,736 | 0% | 798,399,862 |
| 52033 | | Diamonds over 1/2 carat, cut, not set, suitable for jewelry | 2.0 | 531,971 | 0% | 457,582,977 |
| 53227 | | Ceramic floor and wall tiles, except mosaic, unglazed | 24.0 | 1,562 | 0% | 18,274,012 |
| 53352 | | Hotel or restaurant ware of chinaware or of subporcelain | 47.0 | 773 | 0% | 4,977,969 |
| 54660 | | Glassware,nspf,valued over $0.30 but not over $3.00 each | 29.9 | 608 | 0% | 57,707,697 |
| 54668 | | Glassware nes valued over $5 each | 14.0 | 3,718 | 0% | 13,090,618 |
| 62403 | | Unwrought lead, nspf | 3.5 | 8,000 | 0% | 87,628,747 |
| 68035 | | Ball or roller bearing and parts, nes | 8.0 | 1,205 | 0% | 295,920,858 |
| 68066 | | Pillow blocks,ball or roller bearing type,and parts | 9.0 | 600 | 0% | 2,094,267 |
| 68536 | | Record players,phonographs,record changers,turntables,and parts | 5.3 | 756 | 0% | 200,291,171 |
| 68550 | | Radiotelegraphic and radiotelephonic transmission and reception apparatus, | 7.2 | 37,433 | 0% | 614,849,781 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 3,500 | 0% | 3,418,030,966 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 29,790 | 0% | 607,243,508 |
| 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 8.0 | 5,021 | 0% | 28,442,667 |
| 70613 | | Leather luggage,fitted and not fitted,not of reptile leather | 9.9 | 435 | 0% | 24,037,618 |
| 70620 | | Luggage, handbags, and flat goods of textile materials, wholly or in part | 19.4 | 315 | 0% | 3,693,284 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 290 | 0% | 165,743,563 |
| 71533 | | Clocks with other movements, valued over $10 each | 19.0 | 368 | 0% | 18,309,789 |
| 74035 | | Watch bracelets of materials nspf, valued over $5 per dozen | 32.4 | 6,583 | 0% | 44,860,136 |
| 75026 | | Whiskbrooms of broom corn, not over $.45 each, within quota | 17.0 | 979 | 0% | 331,267 |
| 75027 | | Whiskbrooms of broom corn, valued not over $.45 each, over quota | 37.5 | 1,148 | 100% | 1,148 |
| 75029 | | Brooms nspf, of broom corn, not over $.96 each, within quota | 18.5 | 8,337 | 1% | 748,386 |
| 99910 | | Equipment and repairs of vessels and aircraft | 50.0 | 993,371 | 8% | 12,154,167 |
| 99995 | | Under $251 formal and informal entries estimated | 19.2 | 107,100 | 0% | 286,202,700 |

TOTAL FROM PANAMA

| | |
|---|---|
| AGRICULTURE: | 3,024,126 |
| INDUSTRIAL : | 2,181,249 |
| TOTAL : | 5,205,375 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM BAHAMAS
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 11188 | | Salmon, smoked or kippered, not otherwise prepared or preserved, not canne | 5.1 | 534 | 0% | 1,978,086 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 54.6 | 197,857 | 1% | 15,614,937 |
| 13710 | | Peppers, fresh, chilled, or frozen, not reduced in size | 8.5 | 6,286 | 0% | 54,040,280 |
| 13750 | | Squash, fresh, chilled, or frozen, not reduced in size | 7.3 | 10,136 | 0% | 13,902,958 |
| 13760 | | Tomatoes, fresh or chilled, entered mar 1 to jul 14 and sept 1 to nov 14, | 8.1 | 4,005 | 0% | 82,743,669 |
| 14630 | | Avocados, fresh, or prepared or preserved | 197.6 | 1,200 | 0% | 471,792 |
| 16856 | | Cordials,liqueurs,kirschwasser,and ratafia in containers not over 1 gallon | 3.8 | 26,401 | 0% | 19,153,161 |
| 16865 | | Rum(including cana paraguaya),in containers not over 1 gallon each | 51.5 | 24,524 | 12% | 208,937 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 35.1 | 96,794 | 17% | 570,410 |
| 16914 | | Rum (including cana paraguaya) in containers each holding over 1 gallon | 48.6 | 181,162 | 7% | 2,567,771 |
| 17080 | | Tobacco, manufactured or not manufactured, nspf | 3.4 | 500 | 0% | 51,349,940 |
| 19085 | | Marine sponges, grass, velvet or yellow | 3.1 | 61,013 | 84% | 72,267 |
| 19087 | | Marine sponges, sheeps wool | 6.0 | 53,805 | 61% | 88,644 |
| 19090 | | Marine sponges, hardhead or reef | 2.0 | 26,136 | 59% | 44,644 |
| 40535 | | Benzenoid detergents, wetting agents, emulsifiers, dispersants, or foaming | 12.5 | 709,865 | 6% | 11,814,694 |
| 40785 | | Benzenoid drugs (other than tsus items 407.20-407.80) | 12.5 | 14,249,867 | 8% | 178,621,338 |
| 41222 | | Analgesics,antipyretics,and nonhormonal anti-inflammatory agents nes,drugs | 12.6 | 12,716,725 | 54% | 23,450,073 |
| 41250 | | Hormones,synthetic substitutes,and antagonists nes,nspf | 8.7 | 43,119 | 14% | 300,846 |
| 41268 | | Products suitable for drug use nspf,provided for in the chemical appendix | 12.9 | 250,050 | 1% | 16,972,514 |
| 41270 | | Products suitable for drug use,nes,nspf | 6.9 | 16,202 | 1% | 2,679,578 |
| 47505 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.2 | 771,408,986 | 8% | 10,185,304,722 |
| 47510 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.3 | 143,832,448 | 0% | 59,462,463,772 |
| 47535 | | Naphthas derived from petroleum, shale oil, natural gas or combinations th | 0.3 | 314,698,099 | 22% | 1,426,906,340 |
| 54620 | | Glassware articles,nspf,made of glass containing over 24% lead monoxide,va | 10.0 | 319 | 0% | 66,334,155 |
| 60766 | | Plates other than alloy iron or steel not coated or plated with metal and | 7.5 | 23,367 | 0% | 636,812,502 |
| 60767 | | Sheets not coated or plated with metal and not clad,not pickled and not co | 7.5 | 542,606 | 0% | 305,166,766 |
| 61032 | | Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0. | 1.4 | 4,169,306 | 1% | 795,767,915 |
| 68519 | | Other television apparatus and parts thereof,nspf | 4.8 | 3,800 | 0% | 360,076,409 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 2,499 | 0% | 607,243,508 |
| 70618 | | Luggage,handbags,and flat goods of unspun fibrous vegetable materials,nes | 8.2 | 390 | 0% | 10,294,552 |
| 72028 | | Watch cases nspf | 11.2 | 2,335 | 0% | 14,018,994 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 300 | 0% | 19,521,616 |
| 74035 | | Watch bracelets of materials nspf, valued over $5 per dozen | 32.4 | 8,929 | 0% | 44,860,136 |
| 99995 | | Under $251 formal and informal entries estimated | 34.0 | 153,100 | 0% | 286,202,700 |

TOTAL FROM BAHAMAS

| | | |
|---|---|---|
| AGRICULTURE: | | 690,353 |
| INDUSTRIAL | : | 1,262,832,312 |
| TOTAL | : | 1,263,522,665 |

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM JAMAICA
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 11815 | | Chocolate milk drink | 20.0 | 1,300 | 100% | 1,300 |
| 13127 | | Oats, milled, fit for human consumption, over $8.00 per 100 lbs | 1.5 | 2,853 | 0% | 966,245 |
| 13710 | | Peppers, fresh, chilled, or frozen, not reduced in size | 4.1 | 39,349 | 0% | 54,040,280 |
| 13782 | | Yams and sweet potatoes,fresh,chilled or frozen | 22.0 | 124,852 | 13% | 998,339 |
| 13783 | | Yams,frozen;sweet potatoes,fresh,chilled or frozen | 22.0 | 6,695 | 1% | 897,852 |
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.0 | 9,906 | 0% | 2,584,551 |
| 14188 | | Vegetables,nspf,prepared or preserved,not packed in salt,brine or pickled | 17.5 | 41,513 | 0% | 24,142,145 |
| 14731 | | Oranges, except mandarin and kumquats in airtight containers | 4.3 | 11,188 | 0% | 9,195,544 |
| 14800 | | Mangoes,fresh,entering anytime except november 1 - april 30,inclusive | 5.7 | 3,932 | 0% | 9,891,036 |
| 15570 | | Honey | 2.1 | 1,918 | 0% | 21,083,527 |
| 16530 | | Citrus fruit juices, other than lime, not mixed, not concentrated, nov 1% | 6.9 | 3,103 | 0% | 1,935,501 |
| 16865 | | Rum(including cana paraquaya),in containers not over 1 gallon each | 46.2 | 107,137 | 51% | 208,937 |
| 16867 | | Rum(including cana paraquaya),in containers over 1 gallon each | 57.1 | 447,672 | 86% | 522,014 |
| 16913 | | Rum (including cana paraquaya) in containers each holding not over 1 gallo | 31.3 | 111,143 | 19% | 570,410 |
| 16914 | | Rum (including cana paraquaya) in containers each holding over 1 gallon | 54.6 | 1,763,820 | 69% | 2,567,771 |
| 17045 | | Filler tobacco, including cigar leaf, stemmed, not mixed or not over 35% | 12.3 | 3,084 | 0% | 3,905,224 |
| 17060 | | Scrap tobacco | 37.3 | 36,913 | 0% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 7.3 | 8,785,893 | 25% | 34,591,486 |
| 17072 | | Cigars valued under 15¢ each and cheroots | 30.7 | 14,531 | 1% | 1,685,198 |
| 19215 | | Citrus juices unfit for beverage purposes | 1.2 | 18,293 | 1% | 1,989,552 |
| 19219 | | Fresh cut flowers,nes; bouquets,wreathes,sprays or similar articles made f | 8.0 | 4,310 | 0% | 23,207,256 |
| 43747 | | Yeast (except dried brewers' yeast) | 10.0 | 3,675 | 0% | 1,558,248 |
| 45030 | | Flavoring extracts and materials containing not over 20% alcohol | 4.8 | 2,861 | 0% | 1,494,873 |
| 45244 | | Orange oil | 5.0 | 2,356 | 0% | 2,306,481 |
| 54620 | | Glassware articles,nspf,made of glass containing over 24% lead monoxide,va | 9.9 | 700 | 0% | 66,334,155 |
| 68095 | | Pulleys and shaft couplings,nspf and parts thereof | 9.0 | 601 | 0% | 16,702,748 |
| 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.1 | 594 | 0% | 681,664,688 |
| 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 8.0 | 631,130 | 2% | 28,442,667 |
| 70618 | | Luggage,handbags,and flat goods of unspun fibrous vegetable materials,nes | 8.1 | 433 | 0% | 10,294,552 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 18,173 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 12,790 | 0% | 39,906,358 |
| 74540 | | Button blanks and molds and parts of buttons | 26.4 | 466 | 0% | 254,286 |
| 99995 | | Under $251 formal and informal entries estimated | 12.1 | 96,100 | 0% | 286,202,700 |

TOTAL FROM JAMAICA

| | |
|---|---|
| AGRICULTURE: | 11,539,405 |
| INDUSTRIAL : | 769,879 |
| TOTAL : | 12,309,284 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM TURKS ISLANDS
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 99995 | | Under $251 formal and informal entries estimated | 100.0 | 20,000 | 0% | 286,202,700 |

TOTAL FROM TURKS ISLANDS

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 20,000 |
| TOTAL : | 20,000 |

U.S. IMPORTS FROM CAYMAN ISLANDS
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 40380 | | Products derived from benzenoid compounds except those classified in tsus | 12.9 | 6,509 | 0% | 34,618,165 |
| 68519 | | Other television apparatus and parts thereof,nspf | 4.8 | 400 | 0% | 360,076,409 |

TOTAL FROM CAYMAN ISLANDS

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 6,909 |
| TOTAL : | 6,909 |

### 1980 U.S. IMPORT LISTING
### U.S. IMPORTS FROM HAITI
### NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.0 | 1,485,837 | 0% | 1,562,475,937 |
| 12150 | | Pig and hog leather | 4.2 | 6,079 | 0% | 7,744,546 |
| 12163 | | Leather nes, not fancy | 5.0 | 872 | 0% | 19,154,958 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 27.0 | 4,896 | 0% | 15,614,937 |
| 13710 | | Peppers, fresh, chilled, or frozen, not reduced in size | 1.7 | 1,545 | 0% | 54,040,280 |
| 14420 | | Mushrooms, prepared or preserved, except dried | 13.6 | 21,600 | 0% | 121,909,482 |
| 14722 | | Limes,fresh or in brine | 2.9 | 63,711 | 1% | 4,848,600 |
| 14788 | | Mangoes, fresh, entered from nov1 in any yr to following march31, inclusiv | 13.1 | 388,253 | 46% | 837,995 |
| 14794 | | Mangoes, fresh, entered april 1 to october 31, incl | 11.7 | 1,099 | 19% | 5,707 |
| 14800 | | Mangoes,fresh,entering anytime except november 1 - april 30,inclusive | 18.7 | 655,930 | 7% | 9,891,036 |
| 15218 | | Lemon peel, crude, dried, or in brine | 3.9 | 1,860 | 2% | 118,739 |
| 16525 | | Lime juice, not mixed, concentrated or not concentrated, nov 1% ethyl alco | 6.2 | 6,019 | 1% | 1,191,797 |
| 16863 | | Gin,in containers over 1 gallon each | 6.8 | 750 | 1% | 94,719 |
| 16865 | | Rum(including cana paraguaya),in containers not over 1 gallon each | 12.8 | 40,295 | 19% | 208,937 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 12.9 | 80,375 | 14% | 570,410 |
| 17060 | | Scrap tobacco | 12.4 | 31,308 | 0% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 8.1 | 23,200 | 0% | 34,591,486 |
| 20667 | | Wood blinds, shutters, screens and shades, nes, with or without their hard | 8.0 | 787 | 0% | 10,402,445 |
| 22250 | | Blinds,shutters,curtains,screens,and shades, all the foregoing, of unspun | 8.0 | 4,898 | 0% | 4,222,013 |
| 40360 | | Cyclic or benzenoid organic chemical products except those classified in t | 12.9 | 943 | 0% | 239,050,272 |
| 45244 | | Orange oil | 6.0 | 104,479 | 5% | 2,306,481 |
| 53227 | | Ceramic floor and wall tiles, except mosaic, unglazed | 24.0 | 2,726 | 0% | 18,274,012 |
| 68518 | | Cabinets,antennas,deflection yokes,convergence assemblies,flybacks,focus c | 5.0 | 704,061 | 0% | 464,724,239 |
| 68519 | | Other television apparatus and parts thereof,nspf | 3.6 | 850 | 0% | 360,076,409 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 5,657,970 | 2% | 266,975,827 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 2,510,520 | 2% | 164,679,951 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 4.2 | 2,161,878 | 0% | 3,418,030,966 |
| 68840 | | Electrical articles and electrical parts of articles nspf | 3.9 | 182,622 | 0% | 61,594,174 |
| 70005 | | Huaraches, leather | 20.0 | 14,326 | 3% | 561,600 |
| 70015 | | Moccasins, leather | 10.0 | 194,235 | 16% | 1,246,264 |
| 70020 | | Turn or turned footwear of leather | 2.5 | 2,352 | 0% | 2,787,919 |
| 70032 | | Slippers, leather | 5.0 | 634 | 1% | 103,442 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 1,476,575 | 0% | 607,243,508 |
| 70043 | | Leather footwear nes, valued n/o $2.50 per pair, not for men, youths, or b | 15.0 | 15,886 | 0% | 3,300,978 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 543,850 | 0% | 743,458,083 |
| 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.0 | 442,396 | 0% | 681,664,688 |
| 70060 | | Other footwear,nes, less than 10% rubber or plastics | 20.0 | 212,703 | 0% | 607,949,118 |
| 70070 | | Footwear, uppers of vegetable fibers, soles of material other than leather | 7.5 | 4,739 | 0% | 10,841,486 |
| 70280 | | Headwear of wool, not knit, not felt, over $4/lb. | 20.4 | 716 | 0% | 919,202 |
| 70310 | | Headwear of man-made fibers, not part braid, knit | 23.8 | 1,030,316 | 10% | 10,273,645 |
| 70315 | | Headwear of man-made fibers, not part braid, not knit | 23.7 | 184,268 | 2% | 10,606,065 |

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM HAITI
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 70432 | | Lace, net, or ornamented gloves of man-made fibers | 30.0 | 1,017,774 | 4% | 26,885,669 |
| 70445 | | Gloves, not lace, net, or ornamented, of vegetable fibers, made from pre-e | 25.0 | 213,951 | 2% | 10,106,354 |
| 70465 | | Gloves, not lace, net, or ornamented, of wool, over $4/doz. pairs | 20.9 | 68,626 | 3% | 2,617,095 |
| 70485 | | Gloves, not lace, net, or ornamented, of man-made fibers, knit | 46.7 | 4,553 | 0% | 3,713,529 |
| 70490 | | Gloves, not lace, net, or ornamented, of man-made fibers, not knit | 31.9 | 43,461 | 16% | 306,068 |
| 70535 | | Gloves of horsehide or cowhide (except calfskin) leather | 15.0 | 839,169 | 1% | 85,246,888 |
| 70550 | | Gloves of leather, men's, not lined, seamed but not handseamed, over $20/d | 14.0 | 1,344 | 0% | 1,096,392 |
| 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 8.0 | 433,421 | 2% | 28,442,667 |
| 70607 | | Leather handbags valued not over $20 each,not of reptile leather | 10.0 | 313,528 | 0% | 94,349,984 |
| 70609 | | Leather handbags valued over $20 each,not of reptile leather | 9.0 | 15,107 | 0% | 36,714,495 |
| 70613 | | Leather luggage,fitted and not fitted,not of reptile leather | 8.0 | 1,482 | 0% | 24,037,618 |
| 70617 | | Luggage,handbags,and flat goods of unspun fibrous vegetable materials,of r | 18.0 | 39,495 | 3% | 1,394,564 |
| 70618 | | Luggage,handbags,and flat goods of unspun fibrous vegetable materials,nes | 5.3 | 48,766 | 0% | 10,294,552 |
| 70622 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 14.0 | 147,944 | 1% | 14,472,910 |
| 70623 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 6.5 | 30,959 | 0% | 7,916,809 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 1,438,778 | 1% | 165,743,563 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 2,976,507 | 1% | 281,436,480 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 153,671 | 1% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 293,940 | 1% | 39,906,358 |
| 72782 | | Pillows, cushions, mattresses and similar furnishings, of cotton | 15.0 | 14,413 | 8% | 191,559 |
| 73115 | | Fishing rods and parts | 7.6 | 948,116 | 3% | 31,634,268 |
| 73722 | | Dolls (with or without clothing) and parts of dolls | 12.0 | 821,536 | 1% | 124,811,857 |
| 77230 | | Wearing apparel of rubber or plastics except those in tsus 370.04-382.87; | 12.5 | 11,721 | 0% | 72,866,694 |
| 99995 | | Under $251 formal and informal entries estimated | 8.2 | 249,900 | 0% | 286,202,700 |

| TOTAL FROM HAITI | |
|---|---|
| AGRICULTURE: | 2,813,629 |
| INDUSTRIAL : | 25,587,897 |
| TOTAL : | 28,401,526 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM DOMINICAN REPUBLIC
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 10009 | | Live poultry not in the downy stage | 0.1 | 1,480 | 0% | 1,222,119 |
| 10610 | | Beef and veal, fresh, chilled, or frozen | 2.0 | 2,672,090 | 0% | 1,562,475,937 |
| 11415 | | Crabmeat, fresh, chilled, or frozen | 7.5 | 91,248 | 1% | 10,409,681 |
| 11420 | | Crabmeat, prepared or preserved, in airtight containers | 11.0 | 1,620 | 0% | 12,503,152 |
| 11788 | | Cheese nes, cheese substitutes valued over 25¢ per lb | 10.0 | 62,959 | 0% | 113,035,227 |
| 12161 | | Bovine leather, not fancy | 1.0 | 3,928 | 0% | 95,262,794 |
| 13516 | | Beans other than lima, fresh, chilled, or frozen, not reduced in size | 23.6 | 60,895 | 1% | 8,998,930 |
| 13561 | | Celery, fresh or chilled, not reduced in size, entered aug 1 to apr 14, in | 3.3 | 11,166 | 2% | 601,846 |
| 13592 | | Cucumbers, fresh or chilled, not reduced in size, entered mar 1 to jun 30 | 26.9 | 3,221 | 0% | 15,614,937 |
| 13620 | | Eggplant, fresh or chilled, not reduced in size entered apr 1 to nov 30, i | 13.2 | 26,220 | 2% | 1,453,021 |
| 13622 | | Eggplant, fresh or chilled, not reduced in size entered dec 1 to mar 31, i | 11.4 | 27,857 | 1% | 4,531,983 |
| 13660 | | Lettuce, fresh or chilled, not reduced in size, if entered jun 1 to oct 31 | 2.5 | 2,552 | 0% | 1,100,800 |
| 13710 | | Peppers, fresh, chilled, or frozen, not reduced in size | 14.1 | 1,198,551 | 2% | 54,040,280 |
| 13760 | | Tomatoes, fresh or chilled, entered mar 1 to jul 14 and sept 1 to nov 14, | 15.0 | 105,409 | 0% | 82,743,669 |
| 13762 | | Tomatoes, fresh or chilled, entered jul 15 to aug 31, incl, not reduced in | 10.7 | 4,292 | 0% | 1,104,816 |
| 13763 | | Tomatoes, fresh or chilled, entered nov 15 to last day of feb, not reduced | 9.4 | 81,541 | 0% | 47,567,078 |
| 13782 | | Yams and sweet potatoes,fresh,chilled or frozen | 22.0 | 284,017 | 28% | 993,339 |
| 13783 | | Yams,frozen;sweet potatoes,fresh,chilled or frozen | 22.0 | 888,523 | 99% | 897,852 |
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.0 | 782,464 | 30% | 2,584,551 |
| 13840 | | Vegetables,nspf,fresh,chilled or frozen,cut,sliced or reduced in size | 17.5 | 54,785 | 3% | 1,584,533 |
| 13845 | | Vegetables,nspf,fresh,chilled or frozen and cut,sliced or otherwise reduce | 17.5 | 31,166 | 1% | 2,828,021 |
| 14187 | | Sweet ginger prepared or preserved,not packed in salt,brine or pickled | 14.6 | 350 | 0% | 106,257 |
| 14188 | | Vegetables,nspf,prepared or preserved,not packed in salt,brine or pickled | 17.5 | 7,847 | 0% | 24,142,145 |
| 14410 | | Mushrooms, fresh | 30.9 | 33,326 | 6% | 538,981 |
| 14420 | | Mushrooms, prepared or preserved, except dried | 17.8 | 619,325 | 1% | 121,909,482 |
| 14630 | | Avocados, fresh, or prepared or preserved | 74.0 | 470,001 | 100% | 471,792 |
| 14719 | | Lemons, fresh | 11.2 | 12,863 | 100% | 12,863 |
| 14731 | | Oranges, except mandarin and kumquats in airtight containers | 2.6 | 23,392 | 0% | 9,195,544 |
| 14800 | | Mangoes,fresh,entering anytime except november 1 - april 30,inclusive | 21.6 | 14,538 | 0% | 9,891,036 |
| 14810 | | Cantaloupes, fresh, imported aug 1-sept 15 in any year | 20.0 | 3,279 | 50% | 6,504 |
| 14832 | | Melons,nspf,fresh,entering anytime,except december 1 - may 31,inclusive | 34.9 | 255 | 0% | 55,863 |
| 14860 | | Papayas, fresh | 8.5 | 2,440 | 1% | 297,326 |
| 14898 | | Pineapples, prepared or preserved | 0.8 | 960 | 0% | 116,302,079 |
| 15002 | | Fruit mixtures except apricots,citrus fruits,peaches or pears,in airtight | 14.4 | 298 | 0% | 4,302,539 |
| 15214 | | Orange peel, crude, dried, or in brine | 0.8 | 500 | 0% | 289,212 |
| 15230 | | Orange peel, prepared or preserved, except crude, dried or in brine | 5.5 | 20,601 | 28% | 73,220 |
| 15262 | | Orange paste and pulp | 17.5 | 10,123 | 39% | 25,899 |
| 15265 | | Papaya fruit pastes and fruit pulps | 17.5 | 32,060 | 22% | 144,597 |
| 15276 | | Fruit pastes and fruit pulps,nes | 15.0 | 500 | 0% | 1,401,709 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM DOMINICAN REPUBLIC
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 15304 | | Currant and oth berry jelly, jams, marmalades, fruit butters | 2.9 | 275 | 0% | 2,572,099 |
| 15320 | | Papaya jellies, jams, marmalades, and fruit butters | 5.0 | 500 | 3% | 17,340 |
| 15570 | | Honey | 2.3 | 416,851 | 2% | 21,083,527 |
| 16867 | | Rum(including cana paraguaya),in containers over 1 gallon each | 142.2 | 6,426 | 1% | 522,014 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 122.4 | 1,600 | 0% | 570,410 |
| 16914 | | Rum (including cana paraguaya) in containers each holding over 1 gallon | 140.1 | 19,531 | 1% | 2,567,771 |
| 17010 | | Wrapper tobacco, not stemmed | 8.3 | 47,549 | 1% | 8,212,061 |
| 17015 | | Wrapper tobacco, stemmed | 70.8 | 17,885 | 5% | 337,726 |
| 17040 | | Filler tobacco, including cigar leaf, not stemmed, not mixed or not over 3 | 17.4 | 172,483 | 5% | 3,413,763 |
| 17045 | | Filler tobacco, including cigar leaf, stemmed, not mixed or not over 35% | 10.0 | 2,086,161 | 53% | 3,905,224 |
| 17060 | | Scrap tobacco | 17.4 | 6,264,716 | 6% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 8.6 | 8,064,493 | 23% | 34,591,486 |
| 17072 | | Cigars valued under 15¢ each and cheroots | 83.1 | 2,480 | 0% | 1,685,198 |
| 17080 | | Tobacco, manufactured or not manufactured, nspf | 21.9 | 1,768 | 0% | 51,349,940 |
| 17756 | | Tallow | 0.6 | 2,355 | 1% | 350,110 |
| 19215 | | Citrus juices unfit for beverage purposes | 6.4 | 312 | 0% | 1,989,552 |
| 19218 | | Fresh cut roses;bouquets,wreaths,sprays or similar articles made from such | 8.0 | 88,790 | 2% | 4,726,640 |
| 19219 | | Fresh cut flowers,nes; bouquets,wreathes,sprays or similar articles made f | 8.0 | 31,518 | 0% | 23,207,266 |
| 19225 | | Hops | 75.0 | 300 | 0% | 39,816,262 |
| 40725 | | Acetylsalicylic acid (aspirin) | 13.1 | 518 | 0% | 998,047 |
| 45030 | | Flavoring extracts and materials containing not over 20% alcohol | 15.2 | 3,807 | 0% | 1,494,873 |
| 45040 | | Flavoring extracts and materials containing over 20% but not over 50% alco | 31.6 | 266 | 0% | 648,773 |
| 45244 | | Orange oil | 6.0 | 251,348 | 11% | 2,306,481 |
| 51311 | | Sand containing 95% or more silica by weight, not over 0.6% oxide of iron | 0.8 | 798 | 0% | 844,648 |
| 52032 | | Diamonds not over 1/2 carat, cut, not set, suitable for jewelry | 1.0 | 1,567,952 | 0% | 798,399,862 |
| 53224 | | Ceramic floor and wall tiles, except mosaic, glazed | 22.5 | 849,366 | 1% | 130,930,724 |
| 53227 | | Ceramic floor and wall tiles, except mosaic, unglazed | 24.0 | 17,045 | 0% | 18,274,012 |
| 53334 | | Fine-grained earthenware cups,saucers,soups,oatmeals and cereals,plates,et | 10.7 | 16,646 | 0% | 11,242,546 |
| 53339 | | Fine-grained earthenware articles nspf,not available in specific sets | 22.0 | 737 | 0% | 23,126,742 |
| 54660 | | Glassware,nspf,valued over $0.30 but not over $3.00 each | 30.0 | 2,528 | 0% | 57,707,697 |
| 54662 | | Glassware,nspf,cut or engraved valued over $3 but not over $5 each | 15.0 | 10,656 | 0% | 4,120,291 |
| 54664 | | Glassware,nspf,cut or engraved valued over $5 each | 14.0 | 7,151 | 0% | 3,656,710 |
| 54666 | | Glassware nes valued over $3,not over $5 each | 15.0 | 9,499 | 0% | 9,599,093 |
| 60683 | | Steel bars,nspf,not alloy steel,not cold formed not coated or plated with | 6.9 | 884 | 0% | 124,526,969 |
| 64211 | | Wire strand,nes,not fitted and not covered | 7.2 | 15,924 | 0% | 122,630,720 |
| 64625 | | Brads, nails, and similar articles, 1 piece construction, iron or steel, r | 0.5 | 28,278 | 1% | 4,765,880 |
| 65294 | | Columns pillars a posts not alloy iron or steel, nes | 3.4 | 1,600 | 0% | 57,066,715 |
| 68037 | | Ball bearings other than with integral shafts,and parts thereof | 11.0 | 600 | 0% | 85,288,698 |
| 68095 | | Pulleys and shaft couplings,nspf and parts thereof | 8.9 | 282 | 0% | 16,702,748 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 6,097,903 | 2% | 266,975,827 |

1980 U.S. IMPORT LISTING
U.S. IMPORTS FROM DOMINICAN REPUBLIC
NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 68610 | | Resistors including potentiometers and parts | 6.0 | 3,430 | 0% | 164,679,951 |
| 68840 | | Electrical articles and electrical parts of articles nspf | 5.3 | 115,543 | 0% | 61,594,174 |
| 70029 | | Welt footwear of leather,nes,valued over $6.80 per pair | 5.0 | 360 | 0% | 108,158,475 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 198,066 | 0% | 607,243,508 |
| 70043 | | Leather footwear nes, valued n/o $2.50 per pair, not for men, youths, or b | 15.0 | 48,714 | 1% | 3,300,978 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 112,322 | 0% | 743,458,083 |
| 70051 | | Footwear, protective, with over 90% polyvinyl exterior | 11.8 | 110,001 | 44% | 252,413 |
| - 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.0 | 242,926 | 0% | 681,664,688 |
| 70060 | | Other footwear,nes, less than 10% rubber or plastics | 20.0 | 14,627 | 0% | 607,949,118 |
| 70083 | | Footwear of wood | 8.0 | 3,338 | 0% | 70,306,229 |
| 70212 | | Certified hand-loomed and folklore headwear, not knit; and headwear of cot | 18.5 | 97,645 | 1% | 13,146,753 |
| 70305 | | Headwear of man-made fibers, wholly or part braid | 16.7 | 107,661 | 0% | 23,326,932 |
| 70310 | | Headwear of man-made fibers, not part braid, knit | 28.5 | 9,253 | 0% | 10,273,645 |
| 70315 | | Headwear of man-made fibers, not part braid, not knit | 22.3 | 142,060 | 1% | 10,606,065 |
| - 70605 | | Flat goods, such as billfolds, key cases, and similar articles, of leather | 8.0 | 125,326 | 0% | 28,442,667 |
| - 70607 | | Leather handbags valued not over $20 each,not of reptile leather | 10.0 | 8,065,799 | 9% | 94,349,984 |
| 70609 | | Leather handbags valued over $20 each,not of reptile leather | 9.9 | 27,587 | 0% | 36,714,495 |
| 70613 | | Leather luggage,fitted and not fitted,not of reptile leather | 9.8 | 53,778 | 0% | 24,037,618 |
| 70623 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 6.5 | 199,237 | 3% | 7,916,809 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 4,260 | 0% | 165,743,563 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 3,675 | 0% | 281,436,480 |
| 72018 | | Other clock movement, assembled, ov 1.77 in. wide, ov $10 each | 15.4 | 260 | 0% | 33,957,989 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 20,452 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 91,530 | 0% | 39,906,358 |
| 73019 | | Pistols and revolvers, valued over $8 each | 10.7 | 1,952 | 0% | 19,965,038 |
| 99910 | | Equipment and repairs of vessels and aircraft | 50.0 | 300 | 0% | 12,154,167 |
| 99995 | | Under $251 formal and informal entries estimated | 42.3 | 442,900 | 0% | 286,202,700 |

TOTAL FROM DOMINICAN REPUBLIC

| | |
|---|---|
| AGRICULTURE: | 24,874,635 |
| INDUSTRIAL : | 19,126,790 |
| TOTAL : | 44,001,425 |

### 1980 U.S. IMPORT LISTING
### U.S. IMPORTS FROM BRITISH VIRGIN ISLANDS
### NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 16913 | | Rum (including cana paraquaya) in containers each holding not over 1 gallo | 9.5 | 2,050 | 0% | 570,410 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 9.9 | 414 | 0% | 743,458,083 |

TOTAL FROM BRITISH VIRGIN ISLANDS

| | |
|---|---|
| AGRICULTURE: | 2,050 |
| INDUSTRIAL : | 414 |
| TOTAL : | 2,464 |

### U.S. IMPORTS FROM ST CHRISTOPHER-NEVIS-ANGUILLA
### NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 68610 | | Resistors including potentiometers and parts | 6.0 | 2,933 | 0% | 164,679,951 |
| 70035 | | Footwear nspf, of leather, for men, youths and boys | 8.5 | 20,104 | 0% | 607,243,508 |
| 70045 | | Leather footwear nes, valued over $2.50 per pair, not for men, youths, or | 10.0 | 11,270 | 0% | 743,458,083 |

TOTAL FROM ST CHRISTOPHER-NEVIS-ANGUILLA

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 34,307 |
| TOTAL : | 34,307 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM ANTIGUA ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 70315 | | Headwear of man-made fibers, not part braid, not knit | 28.6 | 587 | 0% | 10,606,065 |
| 70535 | | Gloves of horsehide or cowhide (except calfskin) leather | 15.0 | 471,194 | 1% | 85,246,888 |
| 99995 | | Under $251 formal and informal entries estimated | 6.0 | 5,000 | 0% | 286,202,700 |

TOTAL FROM ANTIGUA ISLAND

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 476,781 |
| TOTAL : | 476,781 |

## U.S. IMPORTS FROM MONTSERRAT
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 70315 | | Headwear of man-made fibers, not part braid, not knit | 24.1 | 12,117 | 0% | 10,606,065 |

TOTAL FROM MONTSERRAT

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 12,117 |
| TOTAL : | 12,117 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM DOMINICA ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 61032 | | Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0. | 1.5 | 50,857 | 0% | 795,767,915 |

TOTAL FROM DOMINICA ISLAND

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 50,857 |
| TOTAL : | 50,857 |

## U.S. IMPORTS FROM SAINT LUCIA ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | GSP | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 40650 | | Colors, dyes, stains, except toners, from benzenoid products except those | 20.0 | 9,579 | 0% | 100,122,977 |
| 40670 | | Color lakes and toners from natural alizarin, indigo or benzenoid products | 20.0 | 8,364 | 0% | 23,168,226 |
| 41132 | | Ephedrine,pseudoephedrine,racephedrine,and their salts,suitable for drug u | 15.5 | 115,178 | 5% | 2,313,994 |
| 68039 | | Ball or roller bearings,including such bearings with integral shafts,and p | 12.2 | 933 | 0% | 49,384,046 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 37,343 | 0% | 266,975,827 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 340,498 | 0% | 164,679,951 |

TOTAL FROM SAINT LUCIA ISLAND

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 511,895 |
| TOTAL : | 511,895 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM SAINT VINCENT ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G<br>S<br>P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 70535 | | Gloves of horsehide or cowhide (except calfskin) leather | 15.0 | 45,000 | 0% | 85,246,888 |

TOTAL FROM SAINT VINCENT ISLAND

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 45,000 |
| TOTAL : | 45,000 |

## U.S. IMPORTS FROM GRENADA ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G<br>S<br>P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|

TOTAL FROM GRENADA ISLAND

| | |
|---|---|
| AGRICULTURE: | 0 |
| INDUSTRIAL : | 0 |
| TOTAL : | 0 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM BARBADOS
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.0 | 575 | 0% | 2,584,551 |
| 16867 | | Rum(including cana paraquaya),in containers over 1 gallon each | 54.7 | 67,916 | 13% | 522,014 |
| 16913 | | Rum (including cana paraquaya) in containers each holding not over 1 gallo | 22.4 | 3,867 | 1% | 570,410 |
| 16914 | | Rum (including cana paraquaya) in containers each holding over 1 gallon | 50.7 | 344,781 | 13% | 2,567,771 |
| 68519 | | Other television apparatus and parts thereof,nspf | 4.8 | 5,500 | 0% | 360,076,409 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 568,528 | 0% | 266,975,827 |
| 68610 | | Resistors including potentiometers and parts | 6.0 | 5,406,920 | 3% | 164,679,951 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 14,002,991 | 0% | 3,418,030,966 |
| 68840 | | Electrical articles and electrical parts of articles nspf | 5.3 | 218,412 | 0% | 61,594,174 |
| 70432 | | Lace, net, or ornamented gloves of man-made fibers | 30.0 | 218,209 | 1% | 26,885,669 |
| 70440 | | Gloves, not lace, net, or ornamented, of vegetable fiber, made from pre-ex | 25.0 | 532,456 | 3% | 18,595,258 |
| 70450 | | Gloves, not lace, net, or ornamented, of vegetable fibers, made from fabri | 25.0 | 540 | 0% | 483,075 |
| 70485 | | Gloves, not lace, net, or ornamented, of man-made fibers, knit | 37.8 | 243,373 | 7% | 3,713,529 |
| 70586 | | Gloves of rubber or plastics, nspf | 33.5 | 2,271,223 | 74% | 3,061,337 |
| 70620 | | Luggage, handbags, and flat goods of textile materials, wholly or in part | 19.4 | 7,839 | 0% | 3,693,284 |
| 70622 | | Luggage, handbags, and flat goods, not wholly or in part braid, not pile o | 14.0 | 20,988 | 0% | 14,472,910 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 39,442 | 0% | 165,743,563 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 6,965 | 0% | 281,436,480 |
| 72710 | | Furniture and parts, unspun vegetables fibrous material | 16.0 | 2,585 | 0% | 19,521,616 |
| 72711 | | Furniture of unspun fibrous rattan materials and parts thereof,nspf | 16.0 | 69,145 | 0% | 39,906,358 |
| 99995 | | Under $251 formal and informal entries estimated | 18.3 | 56,200 | 0% | 286,202,700 |

TOTAL FROM BARBADOS

| | |
|---|---|
| AGRICULTURE: | 417,139 |
| INDUSTRIAL : | 23,671,366 |
| TOTAL : | 24,088,505 |

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM TRINIDAD ISLAND
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 12163 | | Leather nes, not fancy | 5.0 | 10,466 | 0% | 19,154,958 |
| 13710 | | Peppers, fresh, chilled, or frozen, not reduced in size | 1.8 | 38,454 | 0% | 54,040,280 |
| 13787 | | Vegetables,nspf,fresh,chilled or frozen | 25.0 | 905 | 0% | 2,584,551 |
| 16525 | | Lime juice, not mixed, concentrated or not concentrated, nov 1% ethyl alco | 3.2 | 20,468 | 2% | 1,191,797 |
| 16865 | | Rum(including cana paraguaya),in containers not over 1 gallon each | 27.3 | 3,161 | 2% | 208,937 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 18.3 | 12,144 | 2% | 570,410 |
| 17060 | | Scrap tobacco | 20.5 | 31,853 | 0% | 98,572,264 |
| 17066 | | Cigars each valued 15¢ or more | 16.5 | 8,728 | 0% | 34,591,486 |
| 40725 | | Acetylsalicylic acid (aspirin) | 12.7 | 300 | 0% | 998,047 |
| 47505 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.2 | 361,382,032 | 4% | 10,185,304,722 |
| 47510 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.3 | 1,601,261,185 | 3% | 59,462,463,772 |
| 47525 | | Motor fuel, including gasoline and jet fuel | 1.3 | 248,708,941 | 15% | 1,612,766,518 |
| 47535 | | Naphthas derived from petroleum, shale oil, natural gas or combinations th | 0.3 | 56,546,336 | 4% | 1,426,906,340 |
| 47545 | | Lubricating oils derived from petroleum, shale oil, or both, with or witho | 1.4 | 29,335,416 | 41% | 71,698,168 |
| 47565 | | Natural gas condensate, other mixtures of hydrocarbons, not provided for, | 0.2 | 6,672,705 | 1% | 457,222,509 |
| 53339 | | Fine-grained earthenware articles nspf,not available in specific sets | 22.0 | 1,071 | 0% | 23,126,742 |
| 68580 | | Electric capacitors, fixed or variable | 10.0 | 86,996 | 0% | 266,975,827 |
| 70607 | | Leather handbags valued not over $20 each,not of reptile leather | 10.0 | 90,297 | 0% | 94,349,984 |
| 99910 | | Equipment and repairs of vessels and aircraft | 50.0 | 164,361 | 1% | 12,154,167 |

TOTAL FROM TRINIDAD ISLAND

| | |
|---|---|
| AGRICULTURE: | 126,179 |
| INDUSTRIAL : | 2,304,249,640 |
| TOTAL : | 2,304,375,819 |

# 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM NETHERLANDS ANTILLES
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 13140 | | Wheat, milled, fit for human consumption | 12.1 | 25,855 | 4% | 643,656 |
| 20450 | | Wood boxes, chests, and cases, nes, lined with textile fabrics | 4.1 | 800 | 0% | 30,585,374 |
| 47505 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.2 | 1,459,713,400 | 14% | 10,185,304,722 |
| 47510 | | Crude petroleum, topped crude petroleum, crude shale oil, distillate and r | 0.3 | 253,463,925 | 0% | 59,462,463,772 |
| 47525 | | Motor fuel, including gasoline and jet fuel | 1.3 | 530,897,496 | 33% | 1,612,766,518 |
| 47535 | | Naphthas derived from petroleum, shale oil, natural gas or combinations th | 0.3 | 183,933,243 | 13% | 1,426,906,340 |
| 52032 | | Diamonds not over 1/2 carat, cut, not set, suitable for jewelry | 1.0 | 47,154 | 0% | 798,399,862 |
| 52033 | | Diamonds over 1/2 carat, cut, not set, suitable for jewelry | 2.0 | 20,360 | 0% | 457,582,977 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 5,073 | 0% | 3,418,030,966 |
| 69220 | | Automobile truck and motor bus chassis and bodies | 4.0 | 400 | 0% | 1,600,508,184 |
| 76005 | | Fountain pens and ball-point pens or pencils and combination pens and penc | 12.5 | 295 | 0% | 19,499,336 |
| 99910 | | Equipment and repairs of vessels and aircraft | 50.0 | 513,050 | 4% | 12,154,167 |
| 99995 | | Under $251 formal and informal entries estimated | 13.5 | 83,000 | 0% | 286,202,700 |

TOTAL FROM NETHERLANDS ANTILLES

| | |
|---|---|
| AGRICULTURE: | 25,855 |
| INDUSTRIAL : | 2,428,678,196 |
| TOTAL : | 2,428,704,051 |

## 1980 U.S. IMPORT LISTING
## U.S. IMPORTS FROM GUYANA
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 16865 | | Rum(including cana paraguaya),in containers not over 1 gallon each | 34.9 | 7,489 | 4% | 208,937 |
| 16913 | | Rum (including cana paraguaya) in containers each holding not over 1 gallo | 24.1 | 160,321 | 28% | 570,410 |
| 16914 | | Rum (including cana paraguaya) in containers each holding over 1 gallon | 35.9 | 255,812 | 10% | 2,567,771 |
| 40785 | | Benzenoid drugs (other than tsus items 407.20-407.80) | 13.8 | 49,609 | 0% | 178,621,338 |
| 41270 | | Products suitable for drug use,nes,nspf | 6.9 | 57,011 | 2% | 2,679,578 |
| 68758 | | Electronic tubes,not cathode-ray tubes;transistors and related electronic | 5.8 | 1,896 | 0% | 3,418,030,966 |
| 70624 | | Luggage, handbags, and flat goods, not wholly or in part braid, of other t | 20.0 | 1,101 | 0% | 165,743,563 |
| 71533 | | Clocks with other movements, valued over $10 each | 16.0 | 639 | 0% | 18,309,789 |
| 99995 | | Under $251 formal and informal entries estimated | 15.7 | 20,100 | 0% | 286,202,700 |

| TOTAL FROM GUYANA | |
|---|---|
| AGRICULTURE: | 423,622 |
| INDUSTRIAL : | 130,356 |
| TOTAL : | 553,978 |

## U.S. IMPORTS FROM SURINAM
## NON-GSP, NON-TEXTILE, NON DUTY FREE

| TSUS | G S P | DESCRIPTION | A.V.E. DUTY | TOTAL IMPORT VALUE FROM CTRY | % OF TOTAL VALUE | VALUE OF TOTAL U.S. IMPORTS |
|---|---|---|---|---|---|---|
| 16535 | | Citrus fruit juices, other than lime, not mixed, concentrated, nov 1% ethy | 55.4 | 37,815 | 0% | 68,780,171 |
| 24023 | | Plywood, other wood face nes, no face finish or with a clear face finish | 10.0 | 42,628 | 0% | 174,609,076 |
| 54664 | | Glassware,nspf,cut or engraved valued over $5 each | 14.0 | 371 | 0% | 3,656,710 |
| 70058 | | Footwear having uppers over 90% of exterior surface area of rubber or plas | 6.0 | 8,270 | 0% | 681,664,683 |
| 70660 | | Luggage, handbags, and flat goods, of other materials, nes | 20.0 | 400 | 0% | 281,436,480 |
| 99995 | | Under $251 formal and informal entries estimated | 100.0 | 19,800 | 0% | 286,202,700 |

| TOTAL FROM SURINAM | |
|---|---|
| AGRICULTURE: | 37,815 |
| INDUSTRIAL : | 71,469 |
| TOTAL : | 109,284 |

### ECONOMIC EFFECTS OF FREE TRADE

Senator **Leahy**. I heard of the preliminary analysis of the economic effects of the free trade area done by the Department of Commerce. Is that correct, is there such an analysis?

Mr. **deKieffer**. There has been a preliminary analysis done by both the Department of Commerce and our agency, with the Interagency Group, including the Department of State.

Senator **Leahy**. Is that available to us?

Mr. **deKieffer**. Yes; we can make it available.

Mr. **Enders**. Yes, Senator, but again with the caveat that we don't stand by that.

Senator **Leahy**. It would give us, though, an idea of where we are going.

[The information follows:]

## PRELIMINARY ANALYSIS

### ECONOMIC IMPACT OF THE FREE TRADE AREA

### Introduction

The objective of the free trade area (FTA) is to stimulate trade and investment in the Caribbean Basin (CB) countries. Under the FTA all CB exports to the United States, except textiles and apparel subject to textile agreements, will enter the United States duty-free. There are special arrangements for sugar imports from the CB countries. In order to be granted duty-free treatment, a product must meet a rules of origin test, defined as at least 25% local value added. Effects on the consumption and production patterns in the CB countries, the United States, and third countries are described below.

### A. Short-run Impact

Summary: Our analysis shows that in the short-run a one-way free trade area would affect a small absolute amount ($800 million) and a small percentage (19 percent) of 1980 total non-petroleum CB exports to the United States 1/. The exclusion of textiles and items likely to be rejected for rules of origin reasons causes the proportion of dutiable CB exports potentially affected by the FTA to fall from 100 percent to 64 percent. The FTA has relatively less effect on the small Caribbean islands, as measured by the proportion of total exports and the proportion of total dutiable exports to the United States granted duty-free status under the FTA. For some countries the major potential impact of the FTA is the restoration of duty-free status to items currently excluded from GSP due to competitive need. The prospective product coverage of the FTA is low in some of the small Caribbean islands due to a large number of items that would likely be rejected for failing to meet the rules of origin criterion.

### Discussion

In the short-run, before the CB countries are able to invest in new productive capacity and to expand significantly production, the direct production effect of the FTA will be a limited expansion of currently dutiable exports coming from industries with idle capacity. The immediate impact of the FTA will be simply to give duty-free status to the current volume of eligible CB exports now entering the United States at MFN rates of duty.

CB exports are currently dutiable for one of the following reasons: (1) the item is not a GSP item and has a MFN rate of duty, (2) the item is a GSP item, but the country is excluded from GSP due to competitive need, or (3) the item is a GSP item, but was denied GSP treatment for administrative reasons such as incomplete documentation or failure to meet rules of origin regulations.

Data is not collected on the reason for a GSP administrative reject. For purposes of this paper we assumed that all items currently excluded from GSP for administrative reasons are rejected because they fail to meet the rules of origin criteria, rather than because they lack complete documentation.

Furthermore, we assumed that these items would also be rejected from the FTA for failure to meet the rules of origin. This methodology somewhat understates the benefits of the FTA for two reasons: (1) not all GSP administrative rejects are attributable to failure to meet the rules of origin and (2) the rules of origin for the FTA have been liberalized relative to GSP (25% local value added rather than the GSP 35% value added) so that some items failing to meet the rules of origin under GSP will meet the FTA's rules of origin. As stated above, due to the lack of information about the local value added of GSP items, we were not able to refine our analysis to correct the understatement of benefits introduced by (1) and (2) above.

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1/ Petroleum and petroleum products account for approximately 60% ($6 billion) of U.S. imports from the CB countries. However, only three countries (Trinidad and Tobago, the Netherlands Antilles, and the Bahamas) account for virtually all of these imports. We have excluded this trade from the analysis, in order not to obscure the effects of the FTA on other products.

Table 1 shows for each CB country the amount of trade that would be affected in the short-run by the FTA under the assumptions that textile and apparel imports 2/ are excluded from the free trade area, and that Basin imports currently excluded from GSP for "administrative reasons" will fail to meet the rules of origin test in the proposed free trade area. There are several points to note. The first is the small amount of exports in absolute terms and as a percentage of current total CB non-petroleum exports to the United States that is affected by the FTA. In 1980, roughly $800 million of CB exports would have been given duty-free status under an FTA arrangement in addition to those items already receiving GSP or MFN duty-free treatment. Due to the large share of trade already entering the United States duty-free, these items represent only 19 percent of total 1980 non-petroleum U.S. imports from the CB. Second, the two sources of exclusion--textiles and items failing to meet rules of origin criteria--cause the amount of trade that could potentially be affected by an FTA to fall by approximately one-third. Table 2 shows that, given these exclusions, rather than 100 percent, only 64 percent of total dutiable non-petroleum CB exports to the United States would receive duty-free treatment under the proposed FTA.

The third important observation is that the magnitude of the potential impact of the FTA varies greatly among the CB countries. The FTA affects a low percentage of the total non-petroleum exports to the United States in the small islands of the Caribbean. The percentage of total current exports affected in Antigua, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Montserrat, the Netherlands Antilles, St. Chris-Nevis-Anguilla, St. Lucia, St. Vincent, and the Turks and Caicos Islands is 16 percent or less. The FTA has a relatively greater impact on some of the larger Caribbean islands, with the percentage of current total non-petroleum imports affected by the FTA ranging from 23 percent to 38 percent for Barbados, the Dominican Republic, Haiti, and the Bahamas. There is no dominant pattern among the Central American countries.

For some of the countries the major impact of the FTA would be the restoration of duty-free status to items currently excluded from GSP due to competitive need. In the Dominican Republic, Haiti, the Netherlands Antilles, and Panama over half of the trade that would be affected by the FTA are GSP items currently falling under competitive needs limitations. Table 3 lists all imports from the CB countries that in 1980 were excluded from GSP due to competitive need.

As Table 2 shows, the degree of success the FTA has in terms of coverage of currently dutiable goods varies tremendously among countries. Again, the smaller Caribbean islands would have a low product coverage ratio. In Antigua, the Cayman Islands, Dominica, Grenada, Montserrat, St. Chris-Nevis-Anguilla, St. Lucia, St. Vincent, and the Turks and Caicos Islands the percentage of total dutiable non-petroleum imports affected by the FTA would be 20 percent or less. The FTA extends duty-free treatment to a large percentage of current dutiable non-petroleum imports from the larger Caribbean islands and Central American countries. The percentage of dutiable shipments affected by the FTA is 69 percent or higher for the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the Bahamas.

The low dutiable product coverage for some of the small islands is not due to the exclusion of textile exports from duty-free treatment, but rather to the large amount of trade that currently fails to meet the rules of origin requirement under GSP. The large number of current GSP administrative rejects was one of the factors motivating the liberalization of the rules of origin relative to GSP. It is hoped that the liberalization of the rules of origin for the FTA (25% local value added rather than 35% under GSP) will increase the product coverage, and therefore the benefits of the FTA, for the smaller Caribbean islands.

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2/ Under the proposed legislation, only textiles and apparel subject to textile agreements will be excluded from the FTA. In order to simplify the data analysis in this paper, all textiles and apparel imports (TSUS Schedule 3) were treated as exclusions from the FTA.

## B. Long-run Impact

The FTA is intended to provide to Caribbean countries an incentive to expand production of those items guaranteed duty-free access to the United States under the FTA. The long-run impact of the FTA on CB countries will be the increased volume of exports to the United States resulting from the expanded productive capacity of existing industries and the diversification of production into new industries.

Some of the factors that will influence new investment include the degree of the tariff preference introduced and the existence of established export markets, which is reflected by current high absolute levels of shipments. However, a country's ability to increase shipments in the long-run depends not only on current trade levels or the degree of tariff preferences but also upon the country's competitiveness, vis-a-vis third country suppliers and U.S. producers, and on the level of new investment to expand productive capacity.

The FTA will stimulate investment only if other impediments to investment do not exist or are small enough to be offset by the advantages derived from the FTA. In particular, political instability, energy and/or transportation constraints, and the economic policies in CB countries may stifle investment even with the FTA in place. The other elements of the CBI program are designed to help alleviate some of the existing impediments.

Annex I lists all 1980 dutiable non-textile imports from the CB countries in descending order of value of 1980 exports to the U.S. In terms of dollar value the most significant non-textile dutiable items currently exported by the CB countries to the United States are:

| Product 3/ | TSUS | 1982 Duty | 1980 Imports from CB ($ millions) | CB Imports as % of total U.S. Imports | Major CB Exporters |
|---|---|---|---|---|---|
| Beef | 10610 | 2¢/lb. | 222 | 14% | All Central American countries |
| Electronic tubes | 68758 | 5.8% 4/ | 58.6 | 1% | Barbados, El Salvador, Haiti |
| Baseball Equipment | 73456 | 5.8% | 32.5 | 83% | Haiti |
| Capacitors | 68580 | 10% | 28.2 | 10% | Dominican Republic, Haiti, El Salvador |
| Cigars | 17066 | 86¢/lb.+ 4.5% 4/ | 24.9 | 71% | Honduras, Nicaragua, Jamaica, Costa Rica, Dominican Republic |
| Resistors | 68610 | 6% | 17.6 | 10% | Barbados, Costa Rica, El Salvador |
| Benzenoid drugs | 40785 | 1.7¢/lb.+ 12.5% 4/ | 14.3 | 8% | Bahamas |
| Analgesics | 41222 | 10.9% | 12.7 | 54% | Bahamas |
| Leather handbags | 70607 | 10% | 8.9 | 9% | Nicaragua, Haiti, Dominican Republic, Trinidad |

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3/ Although a high value import from the Caribbean, sugar (TSUS 15520) is not included in this list due to the limitation on duty-free imports of sugar under the FTA.

4/ 1980 duty rates.

| Product | TSUS | 1982 Duty | 1980 Imports from CB ($ millions) | CB Imports as % of total U.S. Imports | Major CB Exporters |
|---|---|---|---|---|---|
| Tobacco | 17060 | 16.1¢/lb. | 8.9 | 9% | Dominican Republic, Guatemala, Honduras, Jamaica, Nicaragua |
| | 17010 | 36¢/lb.4/ | 3.6 | 43% | |
| | 17080 | 17.5¢/lb. | 3.2 | 6% | |
| | 17045 | 20¢/lb. | 3.0 | 76% | |
| Pineapples | 14896 | 27¢/2.45 cu. ft. | 5.1 | 91% | Honduras |
| Welded iron or steel pipes | 61032 | 1.9% | 4.2 | 0% | Bahamas |
| Luggage, handbags | 70660 | 20% 4/ | 3.6 | 1% | Nicaragua, Haiti |
| Leather footwear | 70035 | 8.5% | 3.3 | 0% | Haiti, Costa Rica, Guatemala, Dominican Republic |
| Rum | 16914 | $1.62/ gallon | 2.6 | 99% | Jamaica |
| Gloves, rubber or plastic | 70586 | 27.1% | 2.3 | 74% | Barbados |

The magnitude of the advantage offered by the FTA varies across products, depending on the height of the U.S. tariff that is being removed. Products with higher U.S. rates of duty will gain the largest advantage relative to the Basin's current position vis-a-vis third country and U.S. suppliers. In 1980 some of the imports from the CB countries with the highest rates of duty were: avocados, rum, citrus juices, gloves, watch bracelets, mushrooms, and lace.

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4/ 1980 duty rate.

II. Impact on the United States

In the long-run the expanded CB productive capacity and export levels will have the effect of: (1) filling increased demand for the product(s), (2) replacing uncompetitive U.S. production, or (3) replacing imports from third countries. Increased CB exports will have a long-run impact on U.S. industry to the extent that the increased CB production displaces existing U.S. production and/or prevents expansion of competing U.S. industries.

In addition, as the CB countries develop and expand their productive capacity in response to the CBI and other measures, their demand for imports will grow. Table 4 shows that in almost every Caribbean Basin country, the United States is the principal supplier of imports, in most cases capturing over 25% of the total import market. Given the strong U.S. position in Basin markets, the United States can be expected to fill a significant part of that additional demand. Currently the largest value U.S. export items to the CB countries are: chemicals, fertilizers, motor vehicles and parts of motor vehicles, kraft paper, refrigerators, airplanes, generators, pre-fab buildings, chickens, corn, wheat, rice, cigarettes, soybeans, oils, tallow, flour, and alfafa. Thus, another long-run benefit of the FTA will be the increase in jobs and profits from expanded demand by the CB countries for U.S. imports.

Finally, U.S. consumers may enjoy the benefit of lower prices for CB imports. U.S. firms that invest in the Caribbean Basin may enjoy higher rates of return made possible by the trade and investment measures in the CBI.

Although analyses of the likely costs and benefits of the FTA on a state-by-state basis have not been undertaken, we have examined the effects of the FTA on Puerto Rico and the Virgin Islands, since these U.S. possessions and territories have a similar industrial and agricultural base as the CB beneficiary countries. The rum industry in the Virgin Islands and Puerto Rico may be affected by the provision of duty-free access to rum under the FTA. To protect the revenue that the Virgin Islands and Puerto Rico derive from the excise tax on rum sold in the United States, the CBI legislation includes a provision rebating the excise tax on all imported rum sold in the U.S. to the Virgin Islands and Puerto Rico. Other industries in the Virgin Islands that produce items currently exported by the CB countries to the United States are benzenoid drugs and analgesics. Other major industries in Puerto Rico that produce items exported by CB countries to the United States are electronics and tobacco.

## III. Impact on Third Countries

The FTA will affect third countries to the extent that (1) expanded CB exports to the United States replace third country exports or (2) third country suppliers fill part of any increased demand by the CB countries for imports for consumption or as inputs for production. The major third country suppliers of the largest categories of dutiable imports from the CB are:

Beef: Australia, New Zealand, Canada
Electronic tubes: Malaysia, Singapore, Japan
Baseball Equip.: No other major third country suppliers
Capacitors: Japan, Mexico, Taiwan
Cigars: Mexico, Philippines, Netherlands
Resistors: Japan, Mexico, Canada
Benzenoid drugs: Ireland, Italy, Japan
Analgesics: Canada, Ireland
Leather handbags: Hong Kong, Korea, Colombia
Tobacco: Cameroon, Mexico (TSUS 17010)
  Brazil, Korea, Canada (TSUS 17060)
  Mexico, Brazil (TSUS 17045)
  Korea, Brazil (TSUS 17080)
Pineapple: No other major third country supplier
Welded steel pipe: Canada, Japan
Luggage, handbags: Taiwan, Korea, Hong Kong
Leather footwear: Korea, Italy, Taiwan
Rum: No other major third country suppliers
Gloves, rubber or plastic: Hong Kong, Philippines

Expanded CB exports of these and other products will affect third country suppliers differentially. Also, CB exports may displace exports from some of the minor suppliers not listed above. In the short-run, the overall displacement effect should not be large, due to the small volume of CB imports that would be affected and the limited amount of idle capacity. In the long-run, the displacement effect will be limited by the fact that overall potential industrial capacity of the CB countries is not large relative to total world production.

## Table 1
## Short-run Effect of FTA on U.S. Imports from CB countries
(of dollars)

| | 1980 dutiable imports that would be duty-free under FTA* | Ttl. 1980 non-petroleum imports | % of ttl. non-petro imports affected by FTA |
|---|---|---|---|
| Antigua | 472 | 2,995 | 16% |
| Barbados | 24,250 | 95,954 | 25% |
| Belize | 1,131 | 57,953 | 2% |
| British V. I. | 2 | 2,687 | .07% |
| Cayman Islands | 7 | 2,575 | .27% |
| Costa Rica | 68,084 | 356,747 | 19% |
| Dominica | 51 | 341 | 15% |
| Dominican Republic | 297,027 | 789,540 | 38% |
| El Salvador | 81,090 | 426,383 | 19% |
| Grenada | 0 | 550 | 0% |
| Guatemala | 43,376 | 411,037 | 11% |
| Haiti | 58,104 | 252,789 | 23% |
| Honduras | 87,260 | 417,512 | 21% |
| Jamaica | 18,856 | 378,702 | 5% |
| Monserrat | 12 | 232 | 5% |
| Neth. Antilles | 2,448 | 105,888 | 2% |
| Nicaragua | 83,231 | 213,372 | 39% |
| Panama | 14,716 | 317,938 | 5% |
| St. Chris-Nevis-Anguilla | 34 | 11,950 | .29% |
| St. Lucia | 512 | 7,499 | 7% |
| St. Vincent | 45 | 405 | 11% |
| Surinam | 89 | 108,896 | .8% |
| Trinidad | 305 | 80,879 | .38% |
| Turks and Caicos | 0 | 3,180 | 0% |
| Guyana | 3,106 | 119,823 | 3% |
| Bahamas | 33,430 | 111,191 | 30% |
| Total | 817,420 | 4,277,018 | 19% |

*Exclude textiles, petroleum products, and GSP items rejected for "administrative reasons"

Table 2

Short-run Effect of FTA on CB countries

| | (1) 1980 dutiable imports that would be duty-free under FTA* | (2) Ttl. dutiable textiles in 1980 | (3) Ttl. dutiable non-petro imports in 1980 | (1)/(3) % of Ttl. dutiable imports affected by FTA |
|---|---|---|---|---|
| Antigua | 472 | 2,263 | 2,776 | 17% |
| Barbados | 24,032 | 12,525 | 50,935 | 47% |
| Belize | 1,131 | 11,003 | 19,528 | 6% |
| British V. I. | 2 | 0 | 5.6 | 36% |
| Cayman | 7 | 0 | 71 | 10% |
| Costa Rica | 68,084 | 39,721 | 114,543 | 59% |
| Dominica | 51 | 0 | 303 | 17% |
| Dominican Republic | 297,027 | 88,583 | 397,238 | 75% |
| El Salvador | 81,090 | 16,881 | 116,960 | 69% |
| Grenada | 0 | 0 | 12 | 0% |
| Guatemala | 43,376 | 3,738 | 63,235 | 69% |
| Haiti | 58,104 | 61,006 | 174,143 | 33% |
| Honduras | 87,260 | 11,878 | 102,656 | 85% |
| Jamaica | 18,856 | 13,503 | 35,049 | 54% |
| Montserrat | 12 | 0 | 203 | 6% |
| Neth. Antilles | 2,448 | 33 | 4,461 | 55% |
| Nicaragua | 83,231 | 14,054 | 101,731 | 82% |
| Panama | 14,716 | 946 | 27,919 | 53% |
| St. Chris-Nevis | 34 | 1,979 | 3,808 | 1% |
| St. Lucia | 512 | 565 | 7,200 | 7% |
| St. Vincent | 45 | 7 | 222 | 20% |
| Surinam | 89 | 0 | 125 | 71% |
| Trinidad | 305 | 1,029 | 2,040 | 15% |
| Turks | 0 | 26 | 42 | 0% |
| Guyana | 3,106 | 2,332 | 8,585 | 36% |
| Bahamas | 33,430 | 43 | 48,161 | 69% |
| Total | 817,420 | 282,115 | 1,281,952 | 64% |

*Exclude textiles, petroleum products, and GSP items rejected for "administrative reasons"

**TABLE 3**: Articles excluded from GSP in 1980 due to competitive need

| TSUS | MFN duty | Country | Product | 1980 Trade ($ million) | |
|---|---|---|---|---|---|
| 155.20 | 0.6625¢/lb. | Guatemala | Sugar | 12.6 | (reinstated to GSP on April 1, 1980) |
| 155.20 | 0.6625¢/lb. | El Salvador | Sugar | 4.0 | (reinstated to GSP on April 1, 1980) |
| 686.24 | 6.9% | El Salvador | Automatic voltage regulators | 5.4 | |
| 200.91 | 2.5% | Honduras | Softwood Dowels | 4.3 | (entered GSP-free from Jan-Mar., 1980) |
| 206.50 | 3% | Honduras | Wood Handles | 1.6 | (entered GSP-free from Jan-Mar., 1980) |
| 155.20 | 0.6625¢/lb. | Nicaragua | Sugar | 15.6 | (reinstated to GSP on April 1, 1980) |
| 137.75 | 12.5% | Costa Rica | Chayote | .2 | (reinstated to GSP on April 1, 1980) |
| 155.20 | 0.6625¢/lb. | Panama | Sugar | 10.6 | (reinstated to GSP on April 1, 1980) |
| 147.33 | 7.2% | Jamaica | Citrus Fruit | .02 | |
| 155.20 | 0.6625¢/lb. | Jamaica | Sugar | 6.6 | (reinstated to GSP on April 1, 1980) |
| 734.56 | 6.4% | Haiti | Baseball Equipt. | 29.9 | (entered GSP-free from Jan-Mar., 1980) |
| 748.12 | 6% | Haiti | Insignia | .006 | |
| 136.00 | 6.5% | Dominican Republic | Dasheen | 4.5 | (entered GSP-free from Jan-Mar., 1980) |
| 152.43 | 11.5% | Dominican Republic | Cashew Apple | .04 | (reinstated to GSP on April 1, 1980) |
| 155.20 | 0.6625¢/lb. | Dominican Republic | Sugar | 245.3 | |
| 155.35 | 2.9¢/gal. | Dominican Republic | Sugar | 3.6 | (entered GSP-free from Jan-Mar., 1980) |
| 155.35 | 2.9¢/gal. | Barbados | Sugar | .2 | (reinstated to GSP on April 1, 1980) |
| 425.84 | 4.7% | Netherlands Antilles | Naphthenic Acids | 2.3 | |
| 155.20 | 0.6225¢/lb. | Guyane | Sugar | 2.6 | (reinstated to GSP on April 1, 1980) |
| Total | | | | 349.3 | |

Table 4 U.S. Exports to CB Countries

U.S. $ Million

| CB Country | Ttl. 1980 Imports into C.B. country | Imports from U.S. 1980 | U.S. Exports as a % of Ttl C.B. imports | U.S. Supplier Position 1980 | Other Suppliers (supplier position) |
|---|---|---|---|---|---|
| Antigua (1975) | 145 | 22.9 | 16% | 2 | UK (1) |
| Barbados | 513.02 | 178.76 | 35% | 1 | |
| Belize | 145.84 | 64.24 | 44% | 1 | |
| British V.I. | n.a. | | | | |
| Cayman | n.a. | | | | |
| Costa Rica | 1504.0 | 517.9 | 34% | 1 | |
| Dominica.(1979) | 25.8 | 3.7 | 14% | 2 | United Kingdom (1) |
| D.R. | 1586.8 | 692.9 | 44% | 1 | |
| El Salvador | 966 | 299.8 | 31% | 1 | |
| Grenada | 35.29 | | | 1 | |
| Guatemala | 1759.5 | 607.8 | 35% | 1 | |
| Haiti | 600.51 | 341.99 | 57% | 1 | |
| Honduras | 1013.6 | 416.8 | 41% | 1 | |
| Jamaica | 1,163.2 | 335.4 | 29% | 1 | |
| Montserrat | n.a. | | | | |
| Neth Antilles | 7589.6 | 492.4 | 6% | 4 | Venezuela (1),<br>Nicaragua (2),<br>Mexico (3) |

Table 4 U.S. Exports to CB Countries

U.S. $ Million

| CB Country | Ttl. 1980 Imports into C.B. country | Imports from U.S. 1980 | U.S. Exports as a % of Ttl C.B. imports | U.S. Supplier Position 1980 | Other Suppliers (supplier position) |
|---|---|---|---|---|---|
| Nicaragua | 803.62 | 274.45 | 34% | 1 | |
| Panama | 3,274.4 | 713.1 | 22% | 1 | |
| St Chris | n.a. | | | | |
| St Lucia (1979) | 272.7 | 80.8 | 30% | 1 | |
| St Vincent(1977) | 35.2 | 4.0 | 11% | 3 | UK (1), Netherlands and possessions (2) |
| Suriname | 521.1 | 150.04 | 29% | 2 | Trinidad (1) |
| Trinidad | 3158.9 | 836.8 | 26% | 2 | Saudi Arabia (1) |
| Turks | n.a. | | | | |
| Guyana | 373.84 | 105.93 | 28% | 1 | |
| Bahamas | 4074.4 | 435.3 | 11% | 4 | Iran (1),<br>Nigeria (2),<br>Libya (3) |

Source: Direction of Trade, Yearbook 1981
For years other than 1980: foreign trade statistics of relevant country
n.a.: not available

## Revenue Foregone from the Free Trade Area

Total duties collected in 1980 on imports, other than textiles and apparel (TSUS schedule 1) and sugar (TSUS 15520), from the potential beneficiary Caribbean Basin countries, excluding Cuba were:

$50,320,275

It is appropriate to exclude the duties on textiles and apparel because textiles and apparel will continue to be subject to duties under the CBI free trade area.

In 1980 duties on petroleum were suspended from January to June 1980. During July - December 1980 the value of petroleum imports from the CB was $2.7 billion and the duties collected were $10.2 million. The value of petroleum imports from the CB from January - June 1980 were $3.2 billion. Therefore in order to reflect a full year's duty on petroleum an additional $12.1 million* would have to be added to the above figure, bringing it to $62.4 million. (Duties on petroleum have been in effect since July 1, 1980.)

The duty on sugar (TSUS 15520) was raised in December 1981 from 0.625¢/lb. to 2.8125¢/lb. Under the CBI, three countries (Dominican Republic, Guatemala, and Panama) will receive duty-free treatment on a quota of sugar, whereas without the CBI these three countries would be subject to duties. The total quota of sugar under the CBI from these three countries is 1.1 million metric tons per year. If these countries fill their quota, the tariff revenue foregone on sugar is $71.3 million. However, if there is a significant rise in the world price of sugar in 1983 or thereafter from the current depressed levels the duty on sugar may fall.

Therefore, the estimated yearly revenue foregone from the free trade area is:

$133.7 million.

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*The ratio of July - December to January - June shipments is .84. Dividing $10.2 duties by 0.84 gives $12.1.

### ALLOCATION OF CBI FUNDS

Also I have been told that $50 million of the CBI economic assistance is unprogramed at this time, is that correct? Is it as high as $50 million?

Mr. REICH. No, sir, not out of the $350 million ESF supplemental request for fiscal year 1982. Ambassador Enders gave you the breakdown, which adds up to $350 million.

Mr. ENDERS. There is $2 million, which is intended for regional use, and there is $10 million which is planned for the Caribbean regional program for the small islands. We have not made a breakdown for these regional programs.

Mr. REICH. It is all earmarked for specfic country or regional programs.

Senator LEAHY. None of the economic assistance is unprogramed?

Mr. REICH. No, sir.

Senator LEAHY. Early on before this committee, there was a discussion of land reform in El Salvador. I know the administration has strongly supported it. We have all been saying that it is necessary for the long-term economic development of Central America.

### LAND REFORM IN GUATEMALA

Are there land reform efforts underway in Guatemala now that we are supporting?

Mr. ENDERS. The land question in Guatemala is a different one. El Salvador is a very populated country, with a very unfavorable ratio of people to land. Guatemala doesn't suffer from that.

In addition to that, the Government of Guatemala has for a number of years been distributing title to land in that country on quite an active basis. I think over the last 2 years, if I can recall from memory, Senator, some 40,000 hectares have been divided by the government, a very substantial amount.

That is not an activity which is supported by the United States.

Mr. REICH. No; not at the present time. However, we have been financing a pilot settlement program for 3,500 landless poor to test a land settlement approach for unused lands.

Senator LEAHY. So, there is no land reform program that we have set forth in Guatemala now?

Mr. REICH. No, sir.

Congressman Long was in Guatemala just recently, and he asked if we would look into this. We have requested the AID mission to contact the Government of Guatemala to get some information, but that is the extent of it.

Mr. ENDERS. But the land problem is quite different there.

### LAND REFORM IN HONDURAS

Senator LEAHY. What about the Honduras, are we supporting any land reform program in the Honduras?

Mr. REICH. We have an agricultural loan in Honduras, and I will be pleased to provide you information on the extent of our involvement through this loan in the land reform program there.

[The information follows:]

### HONDURAS LAND REFORM

Under AID's ongoing Agriculture Sector loan, we have assisted Honduras' land titling system and have financed cadaster surveys. In fiscal year 1982, we plan a Small Farmer Titling and Services project which will assist the government to improve its land reform program management.

### PRIORITY NEED FOR RESOURCES

Mr. ENDERS. Once again, there is not the same problem at all, Senator. It is a country of small holdings, practically no large scale accumulation.

Senator LEAHY. You see no need for a program of land reform there?

Mr. ENDERS. No.

Senator LEAHY. Do you feel there is a need for program beyond what the Guatemalan government has done?

Mr. ENDERS. I think it is a very useful question to investigate, as Congressman Long indicated. Whether it will show that this is a priority need for resources is, I think, uncertain.

Senator LEAHY. Will you be responding to him on that?

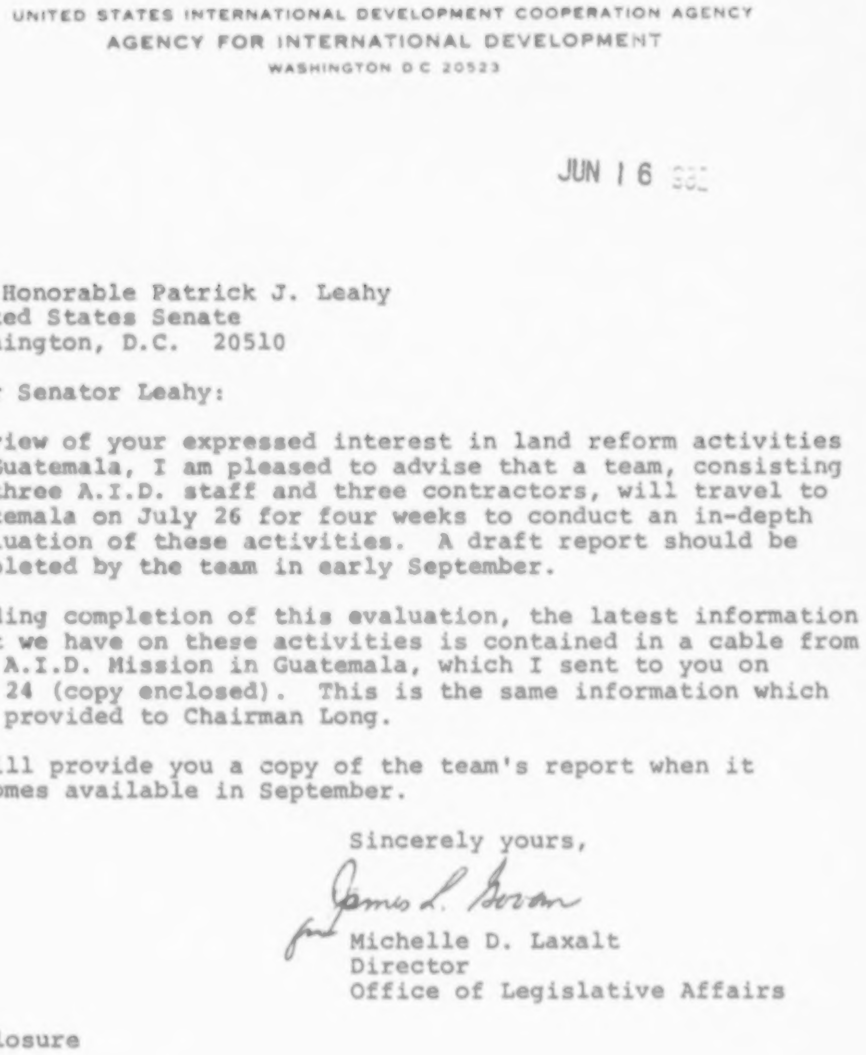
Mr. ENDERS. Yes.

Senator LEAHY. Will you let us know?

Mr. REICH. Yes, sir.

[The information follows:]

## LETTER FROM MICHELLE D. LAXALT



UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

JUN 16

The Honorable Patrick J. Leahy
United States Senate
Washington, D.C. 20510

Dear Senator Leahy:

In view of your expressed interest in land reform activities in Guatemala, I am pleased to advise that a team, consisting of three A.I.D. staff and three contractors, will travel to Guatemala on July 26 for four weeks to conduct an in-depth evaluation of these activities. A draft report should be completed by the team in early September.

Pending completion of this evaluation, the latest information that we have on these activities is contained in a cable from our A.I.D. Mission in Guatemala, which I sent to you on May 24 (copy enclosed). This is the same information which was provided to Chairman Long.

I will provide you a copy of the team's report when it becomes available in September.

Sincerely yours,

for James L. Bovan

Michelle D. Laxalt
Director
Office of Legislative Affairs

Enclosure

# Department of State

## INCOMING TELEGRAM

GUATEM 01887 01 OF 02 152137Z 8977 041501 AID2826
ACTION AID-35

ACTION OFFICE LACE-03
INFO AALA-01 LADP-03 LADR-03 GC-01 GCLA-03 GCFL-01 AAST-01
STAG-02 AGRI-01 RELO-01 [illegible]-01 MAST-01 /022 A2 X15

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UNCLAS SECTION 1 OF 2 GUATEMALA 1887

AIDAC

E.O. 12065: N/A
SUBJ: ASSESSMENT OF GUATEMALAN AGRARIAN REFORM

REF: STATE 054482

THE FOLLOWING ASSESSMENT PROVIDES AN OVERVIEW OF AGRARIAN REFORM EFFORTS IN GUATEMALA. THIS ASSESSMENT IS PRELIMINARY AND WILL BE FOLLOWED BY A MORE IN-DEPTH ANALYSIS OF CONSTRAINTS TO IMPROVEMENTS IN LAND TENURE AND PRODUCTIVITY. IN THE MEANTIME, THE FOLLOWING INFORMATION SHOULD PROVIDE SOME INSIGHT INTO GUATEMALAN EXPERIENCE AND ACCOMPLISHMENTS UNDER THE PRESENT AGRARIAN REFORM PROGRAM. AS WILL BECOME APPARENT THIS PROGRAM IS HIGHLY EVOLUTIONARY DRAWING ON EXISTING GOG LEGISLATION AND PRESIDENTIAL INITIATIVES.

A. BACKGROUND:

1. DURING THE COLONIAL PERIOD IN GUATEMALA, THE SPANISH CROWN DISTRIBUTED MOST OF THE FERTILE LAND TO SPANISH COLONISTS AND/OR THEIR DESCENDANTS AS WELL AS TO THE CHURCH. THE INDIAN POPULATION WAS ASSIGNED TO WORK ON THESE ESTATES UNDER THE "ENCOMIENDA" SYSTEM, A VARIANT OF SERFDOM, WHICH ENSURED A RELIABLE SOURCE OF AGRICULTURAL LABOR. THE PRODUCTION OF THE "LATIFUNDIOS" OR LARGE ESTATES WAS HEAVILY ORIENTED TO MERCANTILIST TRADE WITH SPAIN, A PATTERN WHICH CONTINUED UNTIL THE EARLY 1800S.

2. FOLLOWING INDEPENDENCE FROM SPAIN IN 1821, A SERIES OF REVOLUTIONARY GOVERNMENTS TOOK LAND AWAY FROM THE CHURCH AND LANDED ARISTOCRACY FOR REDISTRIBUTION AMONG THE NATIONAL ELITE. THE PRIVATE OWNERSHIP OF THESE LARGE TRACTS OF LAND PROVIDED THE BASIS FOR MODERN COMMERCIAL EXPORT AGRICULTURE. DURING THIS PERIOD THERE WERE ALSO EFFORTS TO ENCOURAGE HOMESTEADING IN AGRICULTURAL FRONTIER AREAS AND LEGALIZE LAND TENURE PATTERNS IN THE INDIAN HIGHLAND COMMUNITIES.

3. UNDER THE LIBERAL CONSTITUTION OF 1945 THE GOVERNMENT WAS GIVEN THE RIGHT TO EXPROPRIATE PRIVATE PROPERTY IN THE PUBLIC INTEREST PROVIDED COMPENSATION WAS PAID. WITHIN THIS FRAMEWORK THE FIRST MAJOR AGRARIAN REFORM LAW (DECRETO 900) WAS APPROVED IN 1952. THIS LAW SPECIFICALLY PROHIBITED THE FORMATION OF LATIFUNDIOS AND PROVIDED FOR EXPROPRIATION OF IDLE LANDS FOR REDISTRIBUTION TO LANDLESS CAMPESINOS. IN THE TWO YEARS FOLLOWING PASSAGE OF THIS LAW 1.5 MILLION ACRES OR 16 PERCENT OF TOTAL FARMLAND WAS DISTRIBUTED TO SOME 100,000 RURAL CAMPESINOS.

4. WITH THE ADVENT OF THE CASTILLO ARMAS GOVERNMENT IN 1954 THE EMPHASIS OF AGRARAIN REFORM SHIFTED AWAY FROM EXPROPRIATION OF PRIVATE PROPERTY TOWARDS SETTLEMENT OF PUBLICALLY OWNED LANDS. THE AGRARIAN LAW OF 1956 ESTABLISHED DEVELOPMENT ZONES AND FAMILY-SIZE FARMS WERE SOLD WITH A TEN YEAR MORTGAGE. ADDITIONAL LEGISLATION PASSED IN 1962 FURTHER REINFORCED THE COLONIZATION FOCUS. FINALLY, THE AGRARIAN TRANSFORMATION LAW (DECRETO 1551) OF 1962, AS AMENDED, PROVIDES THE LEGAL BASIS FOR THE CURRENT AGRARIAN REFORM PROGRAM IN GUATEMALA. THIS LAW ALSO ESTABLISHED THE INSTITUTE FOR AGRARIAN TRANSFORMATION (INTA) WHICH IS RESPONSIBLE FOR THE SURVEYING, TITLING AND DISTRIBUTION OF PUBLICALLY OWNED LANDS AS WELL AS THE PROVISION OF BASIC INFRASTRUCTURE.

B. CURRENT STATUS:

1. IN FULFILLMENT OF HIS CAMPAIGN PLEDGE, PRESIDENT ROMEO LUCAS ATTACHED HIGH PRIORITY TO "AGRARIAN TRANSFORMATION" AND CONSIDERABLE EMPHASIS WAS PLACED ON THE COLONIZATION OF THE NORTHERN TRANSVERSAL STRIP (NTS). INTA WAS TOTALLY REORGANIZED FOR THE TASK AND GIVEN A CLEAR MANDATE TO DISTRIBUTE LAND AND ISSUE TITLES. APPROXIMATELY ONE-FOURTH OF THE GOG AGRICULTURAL SECTOR BUDGET WAS ASSIGNED TO INTA IN ORDER TO CARRY-OUT THIS MANDATE. INTA EXPENDITURES AVERAGED $20 MILLION ANNUALLY OVER THE 1979-81 PERIOD AND CONSIDERABLE PROGRESS WAS ACHIEVED. DURING THIS PERIOD, APPROXIMATELY 60,000 TITLES WERE ISSUED WHICH INCLUDED SOME 3,000 FAMILIES ASSISTED IN MIGRATING TO GUATEMALA'S NORTHERN AGRICULTURAL FRONTIER KNOWN AS THE NTS. FURTHERMORE, INTA COLLABORATED WITH THE COOPERATIVE FEDERATIONS AND IN SOME CASES TITLED LAND DIRECTLY TO THE COOPERATIVES FOR REDISTRIBUTION AMONG THEIR MEMBERS. HOWEVER, THE PREDOMINATE OWNERSHIP PATTERN PROMOTED BY INTA IS TO ISSUE TITLES CALLED

"PATRIMONIO FAMILIAR MIXTO" WHICH PROVIDE ALL THE BENEFITS OF INDIVIDUAL FAMILY OWNERSHIP OF THE LAND BUT LIMIT THE TRANSFERABILITY OF LAND TITLES. THIS WAS FELT TO BE NECESSARY IN ORDER TO AVOID RECONSOLIDATION OF LANDHOLDINGS.

2. AS PART OF THE AGRARIAN TRANSFORMATION PROGRAM, THE GOG DECIDED TO TURN OVER THE OWNERSHIP AND MANAGEMTN OF THE NATIONAL FARMS TO THE CAMPESINOS WHO CURRENTLY WORK AND LIVE ON THESE FARMS. THERE ARE 24 NATIONAL FARMS MOST OF WHICH WERE CONFISCATED FROM GERMAN OWNERS DURING WWII. MOST OF THE FARMS ARE DEDICATED TO COFFEE PRODUCTION AND ARE WIDELY DISPERSED THROUGHOUT THE COUNTRY. UNDER PUBLIC ADMINISTRATION, THESE FARMS WERE POORLY MANAGED AND FARM PRODUCTIVITY SIGNIFICANTLY DECLINED OVER THE PAST THIRTY-FIVE YEARS. THE POLITICAL DECISION OF THE LUCAS ADMINISTRATION TO TURN THE FARMS OVER TO THE WORKERS REPRESENTS A MAJOR BREAK WITH THE PAST. IN 1981 TWENTY FARMS WERE TITLED TO THE WORKERS AND PLACED UNDER COOPERATIVE MANAGEMENT. IT IS ESTIMATED THAT SOME 18,000 FAMILIES HAVE BENEFITED UNDER THIS PARTICULAR PROGRAM. THE GOG CONTINUES TO SUPPORT THE COOPERATIVE FARMS BY SUPPLYING AGRICULTURAL CREDIT THROUGH THE NATIONAL AGRICULTURAL BANK. MOREOVER, INTA TOOK STEPS TO ENSURE THAT COFFEE EXPORT QUOTAS WERE GRANTED TO THE NEW OWNERS. CURRENTLY, THE OFFICIAL GOAL IS TO DISTRIBUTE 100,000 TITLES BENEFITING SOME 500,000 CAMPESINOS DURING THE LUCAS ADMINISTRATION (1978-82). HOWEVER, MORE REALISTIC PROJECTIONS INDICATE ACTUAL ACHIEVEMENTS WILL BE CLOSER TO 70,000 TITLES BENEFITING 350,000 RURAL CAMPESINOS. OF THIS TOTAL, ROUGH ESTIMATES ARE THAT ABOUT 10,000 OF THESE TITLES (CORRESPONDING TO 250,000 ACRES OF NEW LANDS) WERE DISTRIBUTED UNDER DIRECTED SETTLEMENT ACTIVITIES AND GIVEN TO SPONTANEOUS SETTLERS OF NEW LANDS IN THE NTS. THE BALANCE OF 60,000 TITLES, WOULD CORRESPOND TO THE TURNING OVER OF THE NATIONAL FARMS AND LEGALIZING CLAIMS BY CURRENT LAND OCCUPANTS. TO ACCOMPLISH THE LATTER, INTA HAS BEEN ACTIVE IN PERFORMING CADASTRAL STUDIES AND MEDIATING LAND DISPUTES. THE SERIOUS LAND DISPUTES IN PANZOS AND XALAPAN HAVE BEEN RESOLVED AND LONG-TERM OCCUPANTS HAVE RECEIVED LAND TITLES.

3. IN ORDER TO APPRECIATE THE IMPORTANCE OF LAND REFORM WITHIN THE GUATEMALAN CONTEXT, THE EFFECTS OF POPULATION GROWTH ON LAND TENURE HAVE TO BE CONSIDERED. IT HAS LONG BEEN EVIDENT THAT POPULATION PRESSURES, ESPECIALLY IN THE INDIAN AREAS OF GUATEMALA, ARE REDUCING FARM SIZE AS SHOWN IN COMPARATIVE AGRICULTURAL CENSUS DATA FOR 1950 AND 1979.

| | 1950 | | 1979 | |
|---|---|---|---|---|
| FARM SIZE (ACRES) | NUMBER OF FARMS | PERCENTAGE OF FARMS | NUMBER OF FARMS | PERCENTAGE OF FARMS |
| LESS THAN 3.5 | 165,850 | 47.6 | 369,291 | 60.5 |
| 3.5 TO 17.2 | 142,223 | 40.8 | 178,283 | 29.2 |
| 17.2 TO 111.4 | 33,041 | 9.5 | 49,137 | 8.1 |
| LARGER THAN 111.4 | 7,573 | 2.1 | 13,635 | 2.2 |
| TOTALS | 348,687 | 100.0 | 610,346 | 100.0 |

THE ABOVE DATA SHOWS THAT THE RELATIVE PROPORTION OF SMALL FARMS IS INCREASING OVER TIME RELATIVE TO THE TOTAL NUMBER OF FARMS.

THIS PROCESS OF SUBDIVIDING FARMS DUE TO RAPIDLY EXPANDING POPULATION IS UNDOUBTEDLY REDUCING FARMER INCOMES CAUSING WIDESPREAD RURAL DISCONTENT. HENCE THE NEED TO OPEN UP NEW LANDS IS EVIDENT. CURRENTLY, IT IS ESTIMATED THAT 125,000 ACRES OF ARABLE LAND IN PUBLIC DOMAIN ARE IMMEDIATELY AVAILABLE FOR COLONIZATION IN THE NTS. THE MAJOR CONSTRAINT IS THE ABSENCE OF BASIC INFRASTRUCTURE AND ADEQUATE SOCIAL SERVICES IN THIS REMOTE AREA OF GUATEMALA. CLEARLY, SUCCESSFUL COLONIZATION OF THESE AREAS WOULD FURTHER DIVERSIFY AGRICULTURAL PROUDCTION AND LEAD TO MORE BALANCED GROWTH AND DISTRIBUTION OF POPULATION. AID EXPERIENCE GAINED FROM A PILOT COLONIZATION PROJECT SHOWS THE AVERAGE COST TO BE ROUGHLY $2,000 PER FAMILY SETTLED WHEN BASIC INFRASTRUCTURE AND OTHER SUPPORT SERVICES ARE PROVIDED. THIS AVERAGE COST APPEARS REASONABLE WHEN COMPARED TO THE COST OF EXPROPRIATION (WITH FAIR COMPENSATION) OF PRIVATELY OWNED FARMS WHICH MAY ALREADY BE FULLY PRODUCTIVE. IN CONCLUSION, THE MAIN THRUST OF THE GOG AGRARIAN REFORM PROGRAM IS DIRECTED TOWARDS COLONIZATION. ONLY AFTER EXHAUSTING ALL SUITABLE PUBLIC LANDS WOULD INTA SEEK TO ACQUIRE IDLE LAND FROM PRIVATELY OWNED FARMS. TO DATE INTA HAS BEEN OFFERED SOME 60 PRIVATE FARMS MOST OF WHICH ARE UNDERDEVELOPED AND LOCATED IN CONFLICTIVE AREAS. IT IS BELIEVED THAT THESE FARMS COULD BE ACQUIRED AT REASONABLE PUBLIC COST FOR DISTRIBUTION AND COOPERATIVE DEVELOPMENT.

C. POSSIBLE AREAS OF CORRUPTION:

1. IN GUATEMALA, AS IN MOST OTHER COUNTRIES, CORRUPTION IS ILLEGAL. HENCE, IT IS DIFFICULT TO DOCUMENT AND QUANTITATIVELY EVALUATE ITS SIGNIFICANCE. HOWEVER, MOST OBSERVERS WOULD AGREE THAT CORRUPTION IS A PROBLEM AND THAT ANTI-CORRUPTION LAWS SHOULD BE BETTER ENFORCED. PRIOR TO THE LUCAS ADMINISTRATION THERE WERE FREQUENT ALLEGATIONS, NONE OF WHICH HAVE BEEN BROUGHT TO COURT, THAT INTA OFFICIALS MISAPPROPRIATED FUNDS, GAVE LANDS TO MILITARY OFFICIALS, SIPHONED OFF REVENUES FROM THE NATIONAL FARMS AND ACCEPTED KICKBACKS FROM CONTRACTORS. THE GENERAL CONSENSUS, HOWEVER, IS THAT THE LUCAS ADMINISTRATION HAS IMPROVED PUBLIC ADMINISTRATION AT LEAST IN THE CASE OF INTA. IN SUPPORT OF THIS, IS THE OPEN PUBLICATION OF INTA BUDGET DATA FOR THE PERIOD 1978-82 WHICH IS UNAVAILABLE FOR THE PREVIOUS ADMINISTRATIVE PERIOD 1975-77. MOREOVER, THE LUCAS ADMINISTRATION HAS TAKEN LAND BACK FROM SOME OF THE MILITARY AND OTHER GOG OFFICIALS WHO HAD RECEIVED TITLES DURING THE PREVIOUS ADMINISTRATION. SOME OF THIS LAND WAS ASSIGNED TO THE AID FINANCED COLONIZATION PROJECT FOR SMALL FARMERS. THE LIQUIDATING OF THE NATIONAL FARMS IN 1981 HAS REMOVED YET ANOTHER SOURCE OF POLITICAL PATRONAGE AND RELATED CORRUPTION IN SO FAR AS NO MORE PUBLIC MANAGERS WILL BE NAMED TO ADMINISTER THESE FARMS. IN THE CASE OF KICKBACKS DERIVED FROM GOVERNMENT CONTRACTS ADMINISTERED BY INTA, THE EMERGENCY PROCUREMENT LEGISLATION DOES PERMIT INTA TO WAIVE SOME CONTRACTING PROCEDURES. HOWEVER, THERE

IS NO EVIDENCE KNOWN TO THE MISSION OF ACTUAL KICKBACKS MUCH LESS THEIR RELATIVE MAGNITUDE IN RELATION TO THE SIZE OF THE CONTRACT. A COMMONLY USED RULE-OF-THUMB FOR THE GOVERNMENT AS A WHOLE IS TEN PERCENT BUT THERE IS NO WAY TO VERIFY THIS. THE NEED FOR INTERNATIONAL INSPECTION OF AN EXPANDED LAND REFORM PROGRAM WILL BE ADDRESSED DURING THE IN-DEPTH EVALUATION.

D. IN-DEPTH EVALUATION

THE FOLLOW-UP EVALUATION WILL FOCUS ON THE INSTITUTIONAL CAPACITY OF INTA WORKING WITH GOG MINISTRIES OF AGRICULTURE, HEALTH AND EDUCATION TO REPLICATE, ON A MORE AMBITIOUS SCALE, VIABLE COLONIZATION PROJECTS. THE EVALUATION WILL ALSO INCLUDE ANALYSIS OF THE NEWLY INSTITUTED COOPERATIVE FARMS AND AGRARIAN COMMUNITIES AS WELL AS INTA LEGALIZATION OF "DE FACTO" LAND TENURE AND RESOLUTION OF LAND DISPUTES. THE EVALUATION WILL INDICATE WHAT IMPACT THE LUCAS ADMINISTRATION REFORMS HAVE HAD ON OVERALL LAND TENENCY AND FARM PRODUCTIVITY. FURTHERMORE, AN ESTIMATION WILL BE MADE OF THE LEVEL OF REFORM EFFORT NECESSARY TO SIGNIFICANTLY AMELIORATE SOCIAL TENSIONS IN THE RURAL AREAS GIVEN SECULAR TRENDS IN POPULATION GROWTH AND ADVANCES IN CROP YIELDS RELATIVE TO LAND AVAILABILITY. FINALLY, THE COSTS OF AGRARIAN REFORM PROGRAMS WILL BE TENTATIVELY ESTIMATED BASED ON RECENT LAND REFORM EXPERIENCE AND THE AID PILOT COLONIZATION PROJECT. MISSION WILL SEND SCOPE OF WORK FOR TDY ASSISTANCE FOR THE IN-DEPTH EVALUATION IN SEPTEL.

CHAPIN

## LETTER FROM MICHELLE D. LAXALT

MAY 24 1982

The Honorable Patrick J. Leahy
United States Senate
Washington, D.C. 20510

Dear Senator Leahy:

In testimony before the Senate Appropriations Subcommittee on Foreign Operations hearing of March 17, 1982, Mr. Otto Reich, Assistant Administrator for Latin America and the Caribbean, promised to keep you informed of the results of our assessment of land reform activities in Guatemala. The enclosed cable is the initial response of our A.I.D. Mission in Guatemala. The new government in Guatemala has indicated their interest in continuing this assessment. We are now proceeding to put together a team to carry out a more in-depth evaluation.

I will provide you with as complete a report as possible when that analysis is available.

Sincerely yours,,

/s/ Michelle D. Laxalt

Michelle D. Laxalt
Director
Office of Legislative Affairs

Enclosure: a/s

### CAPITAL FLIGHT FROM EL SALVADOR

Senator **LEAHY**. Last week, when Secretary Haig was before the committee, we raised a question about AID funds having gone to El Salvador in the past possibly ending up in Miami in banks, or in condominium purchases, or in any other way of the money going in and coming back out, some type of capital flight either through corruption or neglect, or whatever.

Obviously, we are concerned about that here. We don't want to set up some kind of a Central American "New Federalism," nor would you. Is that practically a problem, or has it been a problem practically in the past?

Mr. **REICH**. Not to our knowledge, sir. We have looked into this as we have heard the same allegations. The AID mission in El Salvador is very careful to monitor all the expenditures of United States money, and they are sure that our money can be accounted for.

Senator **LEAHY**. You have heard the same stories as I have?

Mr. **REICH**. Yes, we have. Of course, as you know, we are talking about relatively large amounts of money, and money is fungible. However, we do keep pretty close tabs on what we are doing, and we are confident that AID funds are being used for the intended purposes.

Mr. **ENDERS**. That is not the issue, Otto.

Maybe it would be helpful to explain, for example, how the ESF funds that we propose, the additional ones, will be expended, to give you some idea.

Mr. **REICH**. This is not something new. We have been making cash transfers, as you know, for many years. There have been much larger amounts as, for example, in the case of Israel.

Senator **LEAHY**. The allegations or the stories that keep percolating up here, of course, refer to past times, and that is why I asked you about it in the past, only to the extent that it might be a guidance for the future.

Mr. **ENDERS**. I think maybe you should explain some of the controls.

### CONTROL OF CAPITAL FLIGHT

Mr. **REICH**. If you are interested in the mechanisms, Senator, our mission Director from El Salvador, who is much more familiar with the mechanisms, is here and I would like to have him answer this question.

Senator **LEAHY**. Go ahead.

Senator **KASTEN**. I think it would be helpful if you could identify yourself for the record. Please take a seat next to Mr. Reich.

Mr. **ASKIN**. My name is Peter Askin, and I am currently the AID Director in El Salvador.

Senator **LEAHY**. It is good to see you again.

Mr. **ASKIN**. I think we really have two questions here. One is the general concern about capital flight, and the other is the more specific, probably more important concern about the expenditure control and monitoring of U.S. dollars.

We have set up within the past years a series of mechanisms of dollars that include preselection of the imports and submission of documentation to AID. We have rejected those that were not complete, and documents that showed any particular mismanagement or misuse. If they were not complete, we rejected them in accordance with our agreement with the Government of El Salvador.

At the same time, we have encouraged, helped, and stimulated the Central Bank, for example, to establish, within its capability, a price checking system. The Government particularly the Central Bank, has been increasingly more effective in controlling its own foreign exchange.

All foreign exchange transactions are approved by the Central Bank in El Salvador. The commodities to be financed composed a narrow eligible list. Luxuries are not financible with U.S. dollars. We have also done post-audit monitoring of these transactions and have found nothing irregular or anything that would lead us to believe that U.S. AID dollars are going to Miami as you say.

The El Salvadoran economy still suffers from some capital flight. Capital flight, as you all know, is almost impossible to plug.

Senator LEAHY. I am aware of capital flight, obviously, and capital flight has been almost co-terminus with the individual who had the capital leaving at the same time. It has been sort of a race to Miami, sometime, between the two. I think that in a country, undergoing the kind of strife that El Salvador is, it is not unexpected. Perhaps you could provide this for the record, so that I can fully understand.

[The information follows:]

### EL SALVADOR CAPITAL FLIGHT

The following actions have been taken by the Government of El Salvador to address the country's capital flight problem:

First, there is the recently enacted Law for Control of International Exchange Transactions, which declares black marketing, over-invoicing, and other methods of taking hard currencies out of the country other than through the Central Bank to be illegal.

Second, the Central Bank maintains a strict review of all applications to purchase foreign exchange.

Third, all importers must certify that they are using foreign exchange obtained from the Central Bank to purchase imports at normal market prices.

Finally, the Central Bank has established a price-checking unit to compare invoices of goods against prices normally charged for such items.

For import transactions attributable to U.S. Government supplied Economic Support Funds, AID has additional control requirements. All such transactions must fit eligibility criteria, which include raw materials and intermediate goods vital to the economy, and the imports must be from the United States. The Salvadoran Government provides regular reports to AID on the status of all import transactions designated for attribution to the program and certifies when transactions are completed.

### AID FUNDS NOT LEAVING COUNTRY

Senator LEAHY. This is a question I wanted to ask you when I was down in Salvador and I never got around to it, is it your feeling that in the past, at least, the AID funds that we have put into the country have not been among the capital leaving the country?

Mr. ASKIN. I feel quite comfortable that that is correct.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman.

## RECIPIENTS OF U.S. ASSISTANCE

Senator **Kasten**. Mr. Enders, the $340 million of the $350 million of foreign assistance that you are requesting goes to only 7 of the 28 Caribbean nations listed as beneficiaries at the present time under the CBI. Don't you think that this policy could be criticized as being uneven?

Mr. **Enders**. We have chosen that list of countries that are hardest hit, Mr. Chairman, and we think the analysis will indicate very clearly that they are countries that are suffering most.

Notice also that we have chosen on that list, of course, the countries that either are or wish to become democracies. Very generally, two-thirds of the countries in the area are democracies, practicing democracies, and one of the purposes of our policy is to encourage that.

## EXCLUDED COUNTRIES

Senator **Kasten**. Under section 102 of the legislation, the beneficiary countries are listed, and this relates to the answer you just gave me. Such list right now contains Nicaragua and Grenada; both countries would undoubtedly be excluded, under the definitions of paragraph (b) of the same legislation, as Communist countries. Is that correct?

Mr. **Enders**. You see afterward an indication of the limitations on the designation powers of the President. I think there would not be any question at all that Cuba would be regarded as a Communist country.

Whether other countries would be so designated at this moment in the area, I cannot say, Mr. Chairman. Although there are very negative trends in both of the countries you mentioned, Nicaragua and Grenada, I do not regard Nicaragua now as a full-fledged Communist country, whether it would be excluded under this provision, I think not at this moment

Senator **Kasten**. There are other conditions besides being a Communist country that would preclude a country from receiving assistance.

Mr. **Enders**. There are many other conditions which are worth looking at. There are conditions for basic self-help, but they include such things as: Is the country willing to encourage and support a free trade union movement? Has the country expropriated American property without due compensation? There are a very large number of conditions, let me say, which are classical in American foreign assistance legislation, and they are drawn from earlier legislation, and we take all of these very seriously.

We have included in this list self-help type criteria, which we think are really the heart of what we are going to ask from the area, and we mean that quite seriously.

Senator **Kasten**. You have discussed briefly Cuba, Grenada, and Nicaragua. What about just going through the list, what about Guyana?

Mr. **Enders**. Guyana, I hesitate a little bit to make a judgment here. I think what we propose to do is to negotiate with each country that wants to negotiate with us, that might conceivably come under any of these criteria. Then we would ask, what are you prepared to do in the way of self-help; do you have a free trade union movement, et cetera. Then we are going to make a judgment on the basis of that.

I don't want to start out making firm judgments on that kind of thing, Senator.

### 25-PERCENT RULE REGARDING IMPORTS

Senator KASTEN. I would like to examine the 25-percent rule a bit further. Do I understand correctly that the foreign content of a product imported from the Caribbean can be as high as 75 percent, and still enjoy duty-free status?

Mr. DEKIEFFER. That is accurate, but the 25-percent local content rule ties to real local content, and not imported content. There is a two-step process in determining what local content is, and it has to be real local content.

### WORLDWIDE CARIBBEAN INVESTMENT

Senator KASTEN. It seems to me that this might be a substantial loophole which could benefit others far more than the people you are seeking to benefit in the Caribbean Basin.

For example, couldn't the Japanese or the Germans, or anyone else, come into those Caribbean countries with partially manufactured products, add 25 percent which they could argue was fabricated or put together, and sell those products to the United States under these special terms?

Mr. DEKIEFFER. Senator, you have touched on two different points. In the first place, I said that local content had to be real local content, and not just some sort of a fictitious value added.

Second, and perhaps most importantly, the entire program that we have is designed to accomplish just what you suggest, it is to encourage not only American investors from all over the world to look at the Caribbean Basin as an area where they can make a substantial profit because there are certain advantages that are accorded to the Caribbean Basin that are not necessarily accorded to our trading partners.

So, certainly, we are attempting to encourage our trading partners, both in Europe and in the Far East, to invest in the Caribbean Basin. We think that would be an objective that should be accomplished.

Mr. ENDERS. Practically, Senator, I think it would be unlikely that a great many of the countries of this area could achieve substantially more than a quarter of the total value of a product, given their size. They are very small countries. So it may be a good deal more restrictive than one thinks.

### ECONOMIC AND MILITARY ASSISTANCE TO CARIBBEAN

Senator KASTEN. For the current fiscal year, you might not have these figures with you, what is the total amount of U.S. bilateral assistance going to the beneficiaries of the Caribbean Basin, assuming passage of the CBI supplemental?

In other words, how much economic and how much military assistance, bilateral assistance is going to the beneficiary countries?

Mr. **Reich**. I have the economic assistance levels but not the military assistance levels. Would you like to have the amounts by country?

Senator **Kasten**. No, the total.

Mr. **Reich**. Assuming passage by the Congress of the $350 million supplemental request, the total for this year would be $824 million in economic assistance for the Caribbean Basin countries.

Senator **Kasten**. The $824 million is for economic assistance. Do you have a figure for the military assistance?

Mr. **Reich**. No, sir, I don't have the military assistance.

Mr. **Enders**. The military assistance, I will be able to give you in just a moment.

The military supplemental contains $52 million worth of additional military assistance for the area, and we would be operating on $164 million.

Senator **Kasten**. Is that the total?

Mr. **Enders**. Yes, for the area.

Senator **Kasten**. We are at $112 million right now?

Mr. **Enders**. Yes.

Senator **Kasten**. So we are talking about almost $1 billion?

Mr. **Enders**. The figure sticks in my mind, 17.4 percent is military assistance.

Senator **Kasten**. For the eight countries, let us examine the type of assistance that each country will receive.

For example, El Salvador will get $128 million. Is that going to be for projects, the commodity import program, balance of payments support, or what?

Mr. **Reich**. You are talking about $128 million of the $350 million supplemental request?

Senator **Kasten**. Yes.

Mr. **Reich**. The supplemental funds will be used primarily for balance-of-payments support and will make possible imports of needed goods, commodities and raw materials to keep their factories running.

Mr. **Enders**. In other words, these are the inputs to the economic process there. The moneys would be substantially devoted to the private sector. They will come to the Central Bank.

Mr. **Reich**. The funds will permit allocation of credit for the private sector to import the raw materials they need to keep their factories running.

## FUNDING BREAKDOWN BY COUNTRY

Senator **Kasten**. We will submit several questions for the record, and we want to get a breakdown, country by country, of how these different amounts are going to be used. If you could provide that, we would appreciate it.

[The information follows:]

### Supplemental Appropriations Request for Caribbean Basin Countries

The $350 million of Economic Support Funds requested in the President's legislative package submitted to the Congress on March 17 will be allocated to seven countries and two regional programs in the Caribbean Basin. These countries have been hit the hardest and are suffering the most from the current economic crises resulting from high petroleum imports, lower prices for export commodities, high unemployment, and sizable balance-of-payments deficits.

The Economic Support Funds will be used primarily to encourage the allocation of resources by these countries toward private sector imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in their balance of payments. Specifically, the funds will used in each country as follows:

El Salvador.—$128 million. These funds will be used in a manner which assures adequate resources for essential imports for the private sector. Some funds may be used for repair of damage to essential infrastructure, such as the road network and the electric power distribution system.

Costa Rica.—$70 million. These funds will be added to the $20 million already appropriated to provide resources which will permit Costa Rica to import goods, machinery and raw materials needed to maintain production. The funds will be directed to specific institutions, such as private banking institutions and industries which play a critical role in Costa Rica's economy.

Jamaica.—$50 million. These funds will be provided to Jamaica in the form of a cash transfer to the Central Bank and will help meet balance-of-payment requirements arising from the need for essential imports for the private sector.

Dominican Republic.—$40 million. A cash transfer will be provided the government in support of measures to encourage increased private sector investment and credit.

Honduras.—$35 million. These funds will also be used to assure the continuation of imports of spare parts and raw materials needed to maintain agricultural and industrial production.

Caribbean Regional.—$10 million. The specific use of these funds is still being developed by our Regional Development Office for the Caribbean in Bridgetown, Barbados. These resources will be used to address key constraints on private sector expansion, including infrastructure deficiency.

Belize.—$10 million. We anticipate part of these funds will be used to support a rediscount mechanism to provide private sector credit for both foreign exchange and local currency costs. Other options for stimulating private sector expansion in Belize are currently being weighed.

Haiti.—$5 million. These funds will provide credit for new private sector investments in agroindustry, industry and housing sectors through private financing institutions.

Latin America and Caribbean Regional.—$2 million. We propose to increase by $2 million our foreign assistance spending for the development of free labor movements through the regional program with the American Institute for Free Labor Development.

## CURRENT ACCOUNT DEFICITS

Senator KASTEN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

What is the current account deficit for the area included in the CBI?

Mr. ENDERS. The current account deficit for the area as a whole, I don't think we have ever added up. We can add up the separate estimates, and we will be glad to.

Senator LEAHY. I am interested in hearing that as compared to what we are trying to put this year, and what we are planning to put in next year. If you could do that, you could give us at least what your present balances are of the gross national product growth rate for those countries.

Mr. ENDERS. We will be glad to do all that. It is a little artificial when you aggregate them, but we will be glad to do that.

Senator LEAHY. I understand that. You understand the reason for the question, obviously. We are concerned on this committee that if there is a slow growth rate projected, or even a negative growth rate in those countries, and there is already a large deficit account, are we going to be simply ending up being part of the deficit, or are we going to be barely keeping some of these countries afloat, or are we actually going to be helping them?

Do we have enough money in here to help them? Is it too little, too late? These are some of the things I am getting at, and it would be very helpful to me just to know where we stand, really how we fit in. Is it only a drop in the bucket, or is it really an important role?

I suspect that this is going to be a major part of the debate when we go on the floor.

Mr. ENDERS. We will be glad to provide those statistics.

[The information follows:]

## COSTA RICA

Balance of Payments Gap - 1982

($ millions)

| | | |
|---|---|---|
| Current Account | | - 393 |
| Capital Account | | 181 |
| Private | 0 | |
| Official | 181 | |
| AID | 50 | |
| IBRD | 31 | |
| Ven/Mex | 57 | |
| FRG | 15 | |
| Japan | 7 | |
| Gap | | - 212 |
| Additional Finance | | |
| IMF | 72 | |
| US Supplemental | 70 | 142 |
| Unfinanced Gap | | 70 |

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## DOMINICAN REPUBLIC

Balance of Payments Gap - 1982

($ million)

| | | | |
|---|---|---|---|
| Current Account | | | -806 |
| Capital Account | | | 619 |
| Private | | 320 | |
| Official | | 299 | |
| AID | 24.3 | | |
| IDB | 93.2 | | |
| IBRD | 70.0 | | |
| IDA | 14.4 | | |
| USCC | 57.0 | | |
| Other | 40.1 | | |
| Gap | | | -187 |
| Additional Finance | | | |
| IMF | 72 | | |
| IBRD | 20 | | |
| US Supplemental | 40 | | 112 |
| Unfinanced Gap | | | 75 |

EL SALVADOR
Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -361.5 |
| Capital Account | | | 164.7 |
| Private | | - 50 | |
| Official 1/ | | 214.7 | |
| AID | 122.5 | | |
| IDB | 64.8 | | |
| Ven/Mex | 48.4 | | |
| CABEI | 13.8 | | |
| Gap | | | -196.8 |
| Additional Finance | | | |
| IMF | | 85 | |
| Arrearages | | 40 | |
| | | 45 | |
| US Supplemental | | 128 | 173 |
| Unfinanced Gap | | | 23.8 |

1/ Official capital data are available from the GOES on a net basis. Individual donor figures are from donors on a gross disbursement basis.

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HONDURAS
Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | - 398 |
| Capital Account | | | 277 |
| Private | | 75 | |
| Intermediaries | | 12 | |
| SDR & Other | | 25 | |
| Official | | 165 | |
| AID | 42.6 | | |
| IDB | 63.7 | | |
| CABEI | 19.7 | | |
| IBRD | 31.3 | | |
| Ven/Mex | 15.9 | | |
| Gap | | | - 121 |
| Additional Finance | | | |
| IMF | 27 | | |
| US Supplemental | 35 | | 62 |
| Unfinanced Gap | | | 59 |

### JAMAICA
### Balance of Payments Gap - 1982
### ($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -584 |
| Capital Account | | | 311 |
| Private | | 7 | |
| Official | | 304 | |
| UK | 10 | | |
| Canada | 15 | | |
| IDB | 30 | | |
| IBRD | 30 | | |
| OPEC | 10 | | |
| Ven/Mex | 75 | | |
| Trinidad/Tobago | 30 | | |
| Decrease in Arrearages | | | - 30 |
| Gap | | | -303 |
| Additional Finance | | | |
| IMF | 119 | | |
| IBRD | 75 | | |
| US Supplemental | 50 | | 244 |
| Unfinanced Gap | | | 59 |

### HAITI
### Balance of Payments Gap - 1982
### ($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | - 85 |
| Capital Account (net) | | | |
| Private | | 00 | 79 |
| Official | | 79 | |
| AID (DA & PL 480) Title I | 21 | | |
| IDB | 20 | | |
| IBRD | 23 | | |
| Other | 15 | | |
| Gap | | | - 6 |
| Additional Finance | | | |
| IMF | | 20 | |
| ESF - US Supplemental | | 5 | 25 |
| Decrease in Arrears | | | - 19 |

BELIZE
Balance of Payments Gap - 1982
($ millions)

| | | |
|---|---|---|
| Current Account | | - 54 |
| Capital Account | | 23 |
| CDB | 5.4 | |
| UK | 11.4 | |
| EDF | 3.0 | |
| Canada | 1.4 | |
| CDC | .5 | |
| Ven/Mex | 4.7 | |
| Gap | | 31 |
| Additional Finance | | |
| IMF | 6 | |
| US Supplemental | 10 | 16 |
| Unfinanced Gap | | 15 |

Mr. ENDERS. Let me say that one of the purposes of the New York Five, now, is precisely to see that the overall effort is sufficient and not to put the United States in a position where it should assume sole or major responsibility. It should be a collective responsibility for those countries that are on the borders of the Caribbean Basin. It has worked quite effectively that way.

We will be meeting again in August, hopefully with the passage of the new American authorities behind us, precisely in order to assess the sufficiency of the whole effort, and see whether more is needed, or whether a different kind of assistance is then needed.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman.

### SERVICING THE FOREIGN DEBT

Senator KASTEN. Mr. Secretary, if the CBI is to effectively respond to the economic crisis in the Caribbean that we have been talking about, we have all agreed that we have to revive the existing economic structures in these countries.

I understand that in several countries the shortage of foreign exchange is critical, and we have talked about this briefly. Basically, factories cannot import essential raw materials, farmers cannot obtain fertilizer and insecticide, and spare parts and fuel, I guess, also are critically short.

How can we make sure that any assistance in the form of cash transfers will be used to revive the economies of these nations? I am particularly concerned that priority be given to financing of imports which are needed to revive industrial and agricultural production.

Is there any way of reserving these funds for essential imports, to somehow earmark them, in order to preclude their use to repay long-term commercial debt, for example?

Recently, the Wall Street Journal suggested that some of these emergency aid funds may end up by being invested in Miami. We talked about that earlier, also. But is there any way that we can see that they are going for the purposes which we intend?

Mr. REICH. Yes, Senator.

The transfer would not necessarily be tied to specific import transactions, but we do expect that as a condition of the assistance the recipient countries will allocate substantial resources to the private sector for imports in the areas and the sectors you have mentioned, particularly the industrial and agricultural sectors.

Senator KASTEN. You can't target the money?

Mr. REICH. Repayment of debt is not an expected use of these funds.

Senator KASTEN. Funds are obviously fungible.

Mr. ENDERS. It will certainly improve their capacity to repay previous debt.

Mr. REICH. That is right. For example, we have a self-imposed policy in AID to assure that U.S. imports are purchased with U.S. money. We can set a condition that the funds are used for essential imports, and not, for example, for certain luxury goods.

Mr. ENDERS. This may seem as a paradox and it truly is not; one of the purposes of emergency funds of this kind is to help a country like Costa Rica to put itself in the position where it can service its debt.

We want a stabilization agreement which includes a rescheduling of the private debts, which makes some of the short- and medium-term credits into long-term credits, it implies that they begin service on them again. At the same time, that they undertake a variety of self-help and self-limitation measures.

We want to get these countries back into normal functioning, but that is only within the context of an IMF agreement, in which everybody takes on their share of the burden.

### BROAD ASSISTANCE EFFORT IN CARIBBEAN

Mr. REICH. Senator, I would like to add a comment. As the three of us mentioned in our statements, this is an integrated program. It is mutually reinforcing. The U.S. component of the program is really only part of the broader effort.

Ambassador Enders has mentioned the New York Five, formerly the Nassau Four, and their contributions. We mentioned the International Monetary Fund and the World Bank. There are a number of donors, bilateral and multilateral, who want to help and who are concerned with the deteriorating circumstances in the region.

They are waiting almost for the United States to take the lead because we are the largest donor, and we do have a very important role to play in this effort. We believe that once we move with this package, additional resources will be forthcoming.

Senator **Kasten**. In that regard, we are the largest donor. They are waiting for us to take the lead, or wanting us to take the lead.

Mr. Secretary, do you want this CBI proposal to be considered as a separate, urgent supplemental appropriations bill, or is it your plan to submit it as part of a general supplemental appropriations which will be considered.

Mr. **Enders**. There has not been a final decision, Mr. Chairman, on our side. We do hope for early action. I think that the next appropriate time for action may be in the budget resolution of May 15. We would hope very much that the authorization be acted on quickly, so that budget authorities could, in fact, look at the appropriation in the context of a general agreement on what should be done.

This, of course, implies a relatively high level of urgency, since that is only 2 months away. We would hope that something in that timeframe would be possible.

Senator **Kasten**. Mr. Secretary, I would like to thank you and all of you for your testimony here today. It is clear that there are important dangers in the Caribbean Basin, and it is also clear to me that this is a first and important step toward working to start to solve those problems.

### SUBMITTED QUESTIONS

The subcommittee will submit questions in writing. The record will be open for roughly 10 days. We would hope that you could be back to us with answers within a relatively short period of time, and not more than 2 weeks.

[The following questions were not asked at the hearing but were submitted for response subsequent to the hearing:]

# QUESTIONS SUBMITTED BY SENATOR KASTEN

## THE MEXICAN VENEZUELAN OIL FACILITY

Senator Kasten: The CBI is described as a joint effort with Canada, Mexico and Venezuela. It is my understanding that the Canadians plan to double their assistance as their response, and that the Mexican and Venezuelan response is the operation of an oil facility for the Caribbean Basin.

Hasn't that oil facility existed for some time? If so, how is this considered to be part of a new initiative?

Mr. Enders: From 1975 to 1980 Venezuela operated an oil facility under which financing was provided for the difference between $6 and the per barrel oil sales price for the quanity of each participant's imports in 1974. The amount of imports covered was reduced 1/6 each year so that the program terminated automatically by year end 1980.

The Oil Facility established under the San Jose Accord of August 1980 is a cooperative effort undertaken by Mexico and Venezuela to meet the urgent need for oil in the Caribbean Basin. The facility covers both financing and supply. On the supply side, Mexico and Venezuela each provide half of the beneficiaries' crude oil needs up to a total 160,000 barrels per day for the region. The two donors finance up to 30 percent of the value of the recipient counries' oil imports at a rate of 4 percent repayable in 5 years. If the loan proceeds are employed for mutually agreed upon economic development projects, particularly energy projects, they can be converted to 20 year terms at 2 percent.

The Facility was renewed for a period of one year in August 1981.

The Facility has assisted the Caribbean Basin countries in relieving their immediate oil financing burden and in providing incentives to develop energy projects to reduce their dependence on oil imports. It is a critical part of our efforts to address the economic problems of the region.

The following countries are eligible to participate in the Facility.

1) Barbados
2) Belize
3) Costa Rica
4) Dominican Republic
5) El Salvador
6) Grenada
7) Guatemala
8) Haiti
9) Honduras
10) Jamaica
11) Nicaragua
12) Panama

## BANK EXPOSURE AND DEBT SERVICE

Senator Kasten: What is the commercial bank exposure in the CBI beneficiary countries?

Mr. Enders: Our information of commercial bank lending to the region is inherently imprecise. According to the World Bank, however, total exposure is in the range of $4.6 billion.

Senator Kasten: What is the total yearly debt service cost to these countries?

Mr. Enders: In 1981, public debt service paid by all Basin countries totalled $2.2 billion.

## REVIVING EXISTING ECONOMIC STRUCTURES

Senator Kasten: If the CBI is to effectively respond to the economic crisis in the Caribbean, we have to revive the existing economic structures in these countries. I understand that in several countries the shortage of foreign exchange is critical. Factories cannot import essential raw materials, farmers cannot obtain fertilizers or insecticides, spare parts and fuel are critically short.

How can we make sure that any assistance in the form of cash transfers will be used to revive the economies of these nations? I am particularly concerned that priority be given to financing of imports needed to revive industrial and agricultural production. Is there any way of reserving these funds for essential imports and precluding their use to repay long-term commercial debt? For example, the Wall Street Journal has suggested that some of these emergency aid funds may end up being invested in Miami.

Mr. Enders: We have been convinced from the beginning that funds available from the Supplemental must be used to support the revival of production and employment in Basin agriculture and industry. To accomplish that, we must ensure that our funds support the importation of spare parts, intermediate goods, and raw materials, not capital flight or payments on old debt. Because conditions and institutions are different in each country, the mechanisms we use will differ. Basically, however, we will require guarantees that our dollars will be used in support of the agreed purpose and we will monitor these agreements very carefully.

With our existing cash transfer programs, we require documentation showing goods imported and the prices paid for them. We and the Central Bank of each recipient country closely monitor these transactions to avoid over-invoicing or other known techniques of capital flight. I believe this process will allow us to preclude misuse of U.S. funds. Even tighter controls are possible and might be used if they appear to be necessary. Since we believe that a substantial liberalization is necessary to make the economies of these countries work, we hope to accomplish our purposes more by opening new opportunity than by instituting new controls.

## DOMESTIC ECONOMIC POLICIES

Senator Kasten: The effectiveness of our CBI emergency economic assistance may depend less on the amounts of foreign aid than on the domestic economic policies of the recipient countries. Take the case of Costa Rica. Three times in the past three years Costa Rica has failed or rejected adjustment programs worked out with the International Money Fund. On February 26, the outgoing president rejected a $69 million loan from the IMF because, "The IMF has asked us to spend less on everything...no matter what it means for our population, instead of procuring to pay fair prices on the international market for our products." In Costa Rica the Supreme Court and the Legislative Assembly set the exchange rate and, as a consequence, in recent months tourists from other Central American countries flock to Costa Rica to snap up consumer goods at the lowest prices in Central America.

What conditions regarding domestic economic policy will be placed on our emergency loans to countries in the Caribbean region?

Mr. Enders: Although we treat the Caribbean Basin as a unit in our planning process and in discussions with other donor countries, we recognize that vast differences exist between the Island Caribbean and Central America and between individual countries in those sub-regions. We also understand that each country within the region has a unique history and an individual set of opportunities and problems. Our assistance programs and the self-help measures undertaken by participating countries will similarly reflect conditions in each country.

In our consultations with governments and private sectors in the region, we have encountered widespread agreement that Basin economies must be opened up, private investment stimulated and exports increased. Where investment procedures are unnecessarily difficult or complex, an appropriate self-help measure might be streamlining of the relevant laws, or creation of an "investment ombudsman" to smooth the path for local and foreign investors. If internal price controls result in inefficiencies, or inhibit production and investment, our discussions might lead to self-help measures reducing or eliminating the controls. Targets might be established for Central Bank credit to the private sector where appropriate. Many other examples are possible. In each case, the package of self-help measures will be arrived at in consultation with the local government and private sector and will treat specific problems adversely affecting that country's economy.

Senator Kasten: Will disbursement of the U.S. aid dollars be tied to IMF adjustment programs?

Mr. Enders: In every case, disbursement of U.S. funds will be directly tied to comprehensive economic adjustment programs. In most cases, those adjustment programs will be designed by the countries in consultation with the IMF.

Senator Kasten: At a time when we are trying to limit growth in our own entitlement programs and reduce Federal spending, how do we avoid subsidizing out-of-control entitlement programs in Central America?

Mr. Enders: We have absolutely no intention of subsidizing entitlement programs of any sort. On the contrary, our assistance will be directed at increasing private sector investment, production, and employment. Each program will be carefully designed to that end and will spell out the goals, mechanisms and controls of the program. We will, of course, carefully monitor each program.

## US ECONOMIC AND MILITARY ASSISTANCE TO COSTA RICA, EL SALVADOR AND HONDURAS

Senator Kasten: For Fiscal Year 1982, assuming passage of the supplemental, how much bilateral assistance, including also PL 480 and 506 draw-downs, is going to El Salvador?

Of this, how much is military? What are the figures for Fiscal Year 1983?

How much for Costa Rica and Honduras?

Mr. Enders: We will provide a detailed table for this.

The following sets out the bilateral assistance, both economic and military, we expect to provide to Costa Rica, El Salvador and Honduras in FY 1982 and FY 1983.

## US ECONOMIC AND MILITARY ASSISTANCE TO COSTA RICA, EL SALVADOR AND HONDURAS

| | FY 1982 (OYB) | | | FY 1982 (Supplemental)* | FY 1983 (CP) | | |
|---|---|---|---|---|---|---|---|
| | Econ | Mil | Total | ESF | Econ | Mil | TOTAL |
| Costa R. | 51.3 | .05 | 51.35 | 70.0 | 85.0 | .15 | 85.15 |
| DA | (13.0) | | (13.0) | - | (15.0) | | (15.0) |
| ESF | (20.0) | | (20.0) | (70.0) | (60.0) | | (60.0) |
| PL480 | (18.3) | | (18.3) | - | (10.0) | | (10.0) |
| FMS | | | - | - | | | - |
| IMET | | (.05) | (.05) | - | | (.15) | (.15) |
| MAP | | | - | - | | | - |
| 506 | | | - | - | | | - |
| El Sal. | 104.5 | 81.0 | 185.5 | 128.0 | 164.9 | 61.3 | 226.2 |
| DA | (35.0) | | (35.0) | | (25.0) | | (25.0) |
| ESF | (40.0) | | (40.0) | (128.0) | (105.0) | | (105.0) |
| PL480 | (29.5) | | (29.5) | | (34.9) | | (34.9) |
| FMS | | (16.5) | (16.5) | | | (60.0) | (60.0) |
| IMET | | (1.0) | (1.0) | | | (1.3) | (1.3) |
| MAP | | (8.5) | (8.5) | | | | - |
| 506 | | (55.0) | (55.0) | | | | - |
| Honduras | 38.0 | 10.65 | 48.65 | 35.0 | 63.1 | 15.3 | 78.4 |
| DA | (28.8) | | (28.8) | | (29.0) | | (29.0) |
| ESF | | | - | (35.0) | (25.0) | | (25.0) |
| PL480 | (9.2) | | (9.2) | | (9.1) | | (9.1) |
| IMET | | (.65) | (.65) | | | (.8) | (.8) |
| MAP | | (1.0) | (1.0) | | | | - |
| 506 | | | - | | | | - |

*An FY 1982 supplemental in additional military assistance will be submitted to Congress shortly, some of which will likely be allocated to El Salvador and Honduras.

Senator Kasten:
The main element of the CBI with which your office has responsibility is the proposal to grant duty free treatment to imports from the Caribbean. It is my further understanding that such imports from the Caribbean already enjoy free duty status to a substantial extent.

What percentage of imports from the Caribbean presently enjoy duty free status?

Mr. deKieffer:
The following table reveals that 81 percent (100 - 19%) of 1980 Caribbean Basin imports received duty free treatment, either as a result of benefits under the Generalized System of Preferences, or because the MFN rate was duty free:

Attachment to Question 1 Table 1 U.S. $1000

## Short-run Effect of FTA on U.S. Imports from CB countries
(of dollars)

| | 1980 dutiable imports that would be duty-free under FTA* | Ttl. 1980 non-petroleum imports | % of ttl. non-petro imports affected by FTA |
|---|---|---|---|
| Antigua | 472 | 2,995 | 16% |
| Barbados | 24,250 | 95,954 | 25% |
| Belize | 1,131 | 57,953 | 2% |
| British V. I. | 2 | 2,687 | .07% |
| Cayman Islands | 7 | 2,575 | .27% |
| Costa Rica | 68,084 | 356,747 | 19% |
| Dominica | 51 | 341 | 15% |
| Dominican Republic | 297,027 | 789,540 | 38% |
| El Salvador | 81,090 | 426,383 | 19% |
| Grenada | 0 | 550 | 0% |
| Guatemala | 43,376 | 411,037 | 11% |
| Haiti | 58,104 | 252,789 | 23% |
| Honduras | 87,260 | 417,512 | 21% |
| Jamaica | 18,856 | 378,702 | 5% |
| Monserrat | 12 | 232 | 5% |
| Neth. Antilles | 2,448 | 105,888 | 2% |
| Nicaragua | 83,231 | 213,372 | 39% |
| Panama | 14,716 | 317,938 | 5% |
| St. Chris-Nevis-Anguilla | 34 | 11,950 | .29% |
| St. Lucia | 512 | 7,499 | 7% |
| St. Vincent | 45 | 405 | 11% |
| Surinam | 89 | 108,896 | .8% |
| Trinidad | 305 | 80,879 | .38% |
| Turks and Caicos | 0 | 3,180 | 0% |
| Guyana | 3,106 | 119,823 | 3% |
| Bahamas | 33,430 | 111,191 | 30% |
| Total | 817,420 | 4,277,018 | 19% |

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*Exclude textiles, petroleum products, and GSP items rejected for "administrative reasons"

Senator Kasten:
Exactly what kind of imports then are we talking about giving this duty free status to?

Mr. deKieffer:
Beneficiary Caribbean Basin countries would receive duty free access on all products now excluded from GSP by reason of import sensitivity or "competitive need". The attached statistical tabulations list products that would be duty free under the CBI but which now are dutiable from the beneficiaries.

Senator Kasten:
You have indicated that certain textiles and apparel and sugar would be excepted from the granting of duty free access.

Would you please be more specific as to which textiles and why, and more specific on how this affects sugar?

Mr. deKieffer:
Textile trade is a special case, being regulated by the provisions of the GATT Multifiber Arrangement. As such, it was judged inappropriate for inclusion in the Free Trade Area.

For the purposes of the CBI Free Trade Area (FTA), textile and apparel articles, which are subject to textile agreements, will be excluded. This means for FTA implementation purposes only that all cotton, wool, and man-made fiber textile products in the Correlation: Textiles and Apparel Categories with Tariff Schedules of the United States Annotated including its annex will not be eligible for duty-free treatment.

Duty free access for sugar will be granted to the beneficiaries annually, up to a country-specific limit which, for countries now eligible for GSP duty free treatment on sugar, will be the so-called "competitive need" ceiling. The Dominican Republic, Panama, and Guatemala will have an absolute ceiling, as specified in the legislation.

Senator Kasten:
With respect to sugar, I know there was a great deal of concern expressed when the CBI was first announced from U.S. producers.

(A) Since then you have, I understand, ameliorated some of their concerns. Please explain.

(B) Is there not still a real concern that even though sugar producers will be protected, but that because such protection is in the form of activitization of the price support system in the sugar act, that fact may generate increased criticism of the sugar act itself?

Mr. deKieffer:
(A) Initially U.S. sugar producers were concerned that CBI would result in a flood of duty free imports of sugar that would seriously jeopardize the domestic sugar program. The CBI proposal sets absolute limits on the amount of duty free sugar that can enter the United States from major suppliers. In addition the CBI proposes stringent safeguard provisions which give the Administration broad authority to curtail benefits if it appears that the domestic program may be jeopardized.

(B) Yes, this is a valid concern. Many felt that the additional duty free sugar coming into the United States as a result of CBI will force USDA to raise the fee component and that this could generate renewed criticism of the sugar provision of the Farm Bill by consumers, refiners, and industrial users. The continued fall in sugar prices has made it necessary to impose import quotas. These quotas would take precedence over any quotas imposed by the CBI.

Senator Kasten:
Have you anticipated what affect, if any, the granting of this duty free access will have on other U.S. trading partners?

If so, what is that affect, and have other U.S. trading partners complained or asked for the same treatment?

Mr. deKieffer:
The FTA will affect third countries to the extent that (1) expanded CB exports to the United States replace third country exports or (2) third country suppliers fill part of any increased demand by the CB countries for imports for consumption or as inputs for production. The major third country suppliers of the largest categories of dutiable imports from the CB are:

Beef: Australia, New Zealand, Canada
Electronic tubes: Malaysia, Singapore, Japan
Baseball Equipment: No other major third country suppliers
Capacitors: Japan, Mexico, Taiwan
Cigars: Mexico, Philippines, Netherlands
Resistors: Japan, Mexico, Canada
Benzenoid drugs: Ireland, Italy, Japan
Analgesics: Canada, Ireland
Leather handbags: Hong Kong, Korea, Colombia
Tobacco: Cameroon, Mexico (TSUS 17010)
Brazil, Korea, Canada (TSUS 17060)
Mexico, Brazil (TSUS 17045)
Korea, Brazil (TSUS 17080)

Pineapple: No other major third country supplier

Welded steel pipe: Canada, Japan

Luggage, handbags: Taiwan, Korea, Hong Kong

Leather footwear: Korea, Italy, Taiwan

Rum: No other major third country suppliers

Gloves, rubber or plastic: Hong Kong, Philippines

Expanded CB exports of these and other products will affect third country suppliers differentially. Also, CB exports may displace exports from some of the minor suppliers not listed above. In the short-run, the overall displacement effect should not be large, due to the small volume of CB imports that would be affected and the limited amount of idle capacity. In the long-run, the displacement effect will be limited by the fact that overall potential industrial capacity of the CB countries is not large relative to total world production.

With respect to the reaction of our trading partners, concern has arisen from certain sugar suppliers such as Australia, Brazil, and the Philippines, who are suffering from the continuing slide in the world sugar price.

Senator Kasten:

Let us compare the foreign content we allow in exports financed by the export import bank.

In that case, I believe that foreign content allowed is less than 5 percent. Doesn't this seem, therefore, unfair to us?

Mr. deKieffer:

The purpose of the Export Import Bank's limitation on foreign content in products it finances or insures is to ensure that the Bank's activities are consistent with its mandate to promote U.S. exports. The Bank's current guidelines require 100% U.S. content for direct credits/financing guarantees but permit up to 10% content foreign content in the case of medium term financing (30% if there is no U.S. equivalent), and up to 50% foreign content in the case of short term insurance programs.

In contrast, the 25% direct cost of processing and value of materials requirements in order for goods to qualify for duty-free treatment under the CBI is intended to ensure that only products to which some value has been added in the beneficiary countries receive duty-free treatment.

Senator Kasten:
Would you provide more details on the special proposals concerning Puerto Rico and the Virgin Islands and the need for these proposals?

(See attachment)

## MEASURES FOR PUERTO RICO AND THE U.S. VIRGIN ISLANDS

### I. RUM.

To ensure that duty-free treatment of rum from the Caribbean Basin does not reduce U.S. excise tax revenues received by Puerto Rico and the U.S. Virgin Islands, the U.S. will transfer to them the same rate of excise taxes per unit collected on imported rum as on their rum. The formula ensures that imported rum will be treated as rum produced in Puerto Rico and the Virgin Islands for purposes of excise tax payments to them. The legislation will also require the President, in the event the formula is altered to the detriment of Puerto Rico and the Virgin Islands, to take measures to compensate them for any detrimental effect, including the possibility of a snapback in the MFN rate.

USTR negotiators will seek commitments from Caribbean countries that they will continue to supply molasses to Puerto Rico and the Virgin Islands on commercial terms.

### II. TAX INCENTIVES.

a. Investment Incentive - The President's Message to Congress forwarding CBI implementating legislation will recognize the Administration's intent to propose the extension of the Accelerated Cost Recovery System (ACRS) and Investment Tax Credit (ITC) to all "Section 936" companies located in Puerto Rico. These firms can pass through the benefits of ACRS and ITC to their mainland parent corporation. Similar benefits will also be proposed for the Virgin Islands.

The benefits of Section 44 of the Internal Revenue Code for research and development will be discussed with Puerto Rico to explore the possibility of extending these benefits to Puerto Rico.

b. Withholding Taxes - Further consultations will take place between Treasury and Virgin Islands' officials on the issue of Virgin Islands' withholding taxes.

### III. SAFEGUARDS.

In preparing FTA legislation, we will assure that Puerto Rico and the Virgin Islands have standing to petition under the CBI safeguard mechanism. Injury to a particular region is to be taken into account under the provisions of the 1974 Trade Act.

### IV. CUSTOMS.

a. Rules-of-Origin - For purposes of rules-of-origin in the FTA, Puerto Rico and the Virgin Islands inputs will be treated as products of the Caribbean Basin for calculating Caribbean Basin value-added.

b. Duty-free Access for the Virgin Islands - As part of the CBI legislation, the Administration will support amendment of Headnote 3(a) of the Tariff Schedule of the United States to provide duty-free treatment of Virgin Islands exports whose foreign content does not exceed 70 percent of the declared customs value. Currently the maximum foreign content permitted is 50 percent.

c. Duty-free Import of Liquor - As part of CBI legislation, the Administration will propose amendment of the tariff schedule to permit visitors returning from U.S. territories to import duty-free and free of excise tax, an additional liter of locally produced alcoholic beverages.

V. LOCAL TRADE PROBLEMS.

If requested by Puerto Rico, we will consider proposals for assisting industry in Puerto Rico threatened by loss of local market from additional Caribbean imports.

VI. AGRICULTURE.

a. Crop Insurance - The Department of Agriculture will extend to Puerto Rico, through the Federal Crop Insurance Corporation, its reinsurance program no later than mid-1983 provided certain technical problems can be overcome.

b. Price Supports - The Department of Agriculture will extend to Puerto Rico price supports for rice and will consider the possibility of extending to Puerto Rico price supports for all commodities produced in Puerto Rico for which there is a U.S. price support program.

c. Puerto Rican Agricultural Development - The Federal Government, through the Department of Agriculture or other agencies, will provide technical assistance to Puerto Rico upon request for the purpose of improving the productivity of the Island's agriculture.

Technical Assistance will also be given to Puerto Rico upon request in an effort to integrate the Island's agricultural development with that of the Caribbean Basin as a whole.

The Federal Government will also make greater use of the Tropical Agriculture Research Center, located in Puerto Rico, for the purposes of developing and implementing an integrated Caribbean Basin agricultural strategy.

VII. TRANSPORTATION.

a. Air negotiations - The U.S. Government will seek to expand air routes between and through San Juan and foreign countries for American and foreign flag carriers.

In future bilateral air negotiations account will be taken of the vital importance of increasing foreign carrier entry into Puerto Rico. Informal prior consultation between Puerto Rican officials and U.S. negotiators will continue to be undertaken regularly.

U.S. flag carriers should be able to take advantage of San Juan's status as the transportation hub of the Caribbean. From Caribbean nations, the U.S. should seek a liberal entry regime for U.S. carriers between Puerto Rico and Caribbean nations.

These policies should be negotiated with a view to achieving Puerto Rico's objectives, including the establishment of a Canada-Puerto Rico air route and new or additional air routes between Puerto Rico and Mexico; Venezuela; Brazil; and the United Kingdom.

b. Cruise Ships - In the development of its comprehensive maritime policy, the Administration will attempt to develop measures which will reduce restrictions on the carriage of passengers by foreign flag cruise ships between San Juan and other U.S. ports as long as there exist no U.S. flag carriers providing adequate services. Among other possible measures this will include specifically the lifting of current restrictions that limit to 24 hours the amount of time a cruise ship or cruise ship passengers may remain in San Juan.

c. Shipping to Puerto Rico - The Department of Transportation is studying carefully regulations affecting cost of shipping for Puerto Rico, with a view to modifying those regulations where Puerto Rican economic development is being retarded. The DOT is considering legislation to eliminate federal regulation of ocean shipping rates between the mainland and Puerto Rico. Consideration will be given to specific requests from Puerto Rico for the financing of vessels.

d. St. Thomas Airport - The Department of Transportation will continue to work with relevant agencies to provide support for the completion of the airport and will hold discussions on this matter with Virgin Islands' officials.

VIII. AID.

a. Aid Procurement - Aid will make a strong effort to secure material inputs, technical assistance contracting and institutional support from Puerto Rico and the Virgin Islands.

b. Eastern Caribbean Center - As part of the CBI, the Administration will support in FY 1982 the appropriation of $150,000 for an Eastern Caribbean Center for Educational, Cultural, Technical and Scientific Interchange at the College of the Virgin Islands. (Authorization of these funds has already passed the House.)

IX. ENVIRONMENTAL REGULATIONS.

EPA will review, at Puerto Rico's and the Virgin Islands' request, the application of its regulations to the Islands. EPA will endeavor to be more flexible in future application of regulations having a substantial impact on these areas.

X. CRUDE REFINERY FACILITY.

If justified by feasibility studies, the Departments of State and Energy will promote Puerto Rico as a center for refining of heavy crude. These agencies will bring to the attention of the region the possibility of using Puerto Rican facilities for heavy crude refining and the export of lighter crudes or products.

XI. COPPER AND OIL EXPLORATIONS.

The Federal Government will continue to provide to Puerto Rico, where appropriate, technical assistance for the purpose of assisting the exploration and development of copper, oil or other natural resources.

XII. CBI IMPLEMENTATION.

Puerto Rican and Virgin Islands' officials are deeply interested in participating in the design and implementation of the CBI. The U.S. Government has in fact, consulted very closely with these officials on all aspects of the CBI and intends to continue to do so Puerto Rico and the Virgin Islands' officials will be invited to participate in many of the bilateral discussions involving CBI implementation.

Mr. deKieffer:
The Administration believes that through these measures, Puerto Rico and the Virgin Islands will be able to share fully in the revitalization of the economies of the Caribbean Basin which is the objective of the CBI.

Senator Kasten:
Can you answer questions with respect to the various tax proposals which are part of this package?

If so, please detail each of them.

Mr. deKieffer:
The attached testimony by Deputy Assistant Secretary Ballentine of the Department of Treasury provides a very thorough explanation of our tax proposals.

(Attachment follows:)

EMBARGOED FOR RELEASE UPON DELIVERY EXPECTED AT 2:00 P.M.
Wednesday, March 17, 1982

STATEMENT OF
J. GREGORY BALLENTINE
DEPUTY ASSISTANT SECRETARY (TAX ANALYSIS)
DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON TRADE OF THE
HOUSE WAYS AND MEANS COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear before your Subcommittee in support of the Caribbean Basin Economic Recovery Act. As the President noted in his transmittal message, this Act is an integrated program designed to improve the lives of the peoples of the Caribbean Basin. The tax provisions of the Act are a vital element of this integrated program.

The tax incentives in this legislation may be divided into two parts: the investment tax credit designed to promote investment in Caribbean Basin countries and the investment tax credit and other tax incentives designed to restore the favored tax status of Puerto Rico and the U.S. Virgin Islands, the two U.S. possessions in the region, as well as the other U.S. possessions. I will first address the Caribbean Basin aspects of the legislation. Before discussing the specifics of the legislation, it will be useful to describe the economic characteristics of the region and the current levels of U.S. investment in the region. My discussion of the parts of the legislation pertaining to Puerto Rico and other U.S. possessions will also include a review of the relevant economic context of these proposals.

## I. The Caribbean Basin

### Economic Characteristics of the Caribbean Basin

The term "Caribbean Basin" as used in this discussion describes those Caribbean countries which are designated by the President as qualifying for the benefits of the Act. These may include Guyana, Suriname, and countries in Central America and the Caribbean islands. My remarks will be with reference to all the countries in the region with the exception of Cuba. Although by any reasonable standard all of the qualifying jurisdictions would be classified as developing countries, they are not a homogeneous group. They share certain features, such as low per capita income, high unemployment, lack of skilled labor, dependence on one or a few primary products, very little manufacturing activity, and small markets. But they vary widely in resources, institutions, and facilities for foreign investment.

A few countries have profitable mineral resources (oil in Trinidad and Tobago and bauxite in Jamaica, Suriname, and Guyana). Some have a reasonably sound agricultural base (the Dominican Republic and Guatemala). Some have developed trade or services sectors (Panama and Costa Rica). Some (the British Virgin Islands, the Cayman Islands, the Bahamas, and the Netherlands Antilles) are able to generate income from marketing tax savings to nonresidents. Others have practically no cash economy (Barbuda, St. Lucia, and St. Vincent). Although tourism is a major industry in the region, it cannot be relied on to support the economies of all the Caribbean countries. Some are not independent countries, but dependencies of the United Kingdom (e.g., the British Virgin Islands) or part of the Netherlands (Netherlands Antilles).

The languages spoken include Dutch, English, French, Spanish, and various dialects. The currency units differ. Communications and transportation facilities range from extremely poor to excellent. Political and economic stability vary, but are generally fragile. The total population of the area, 41 million, is governed by over 20 separate governments. The most populous country is Guatemala, with about 7 million inhabitants; the smallest are the Turks and Caicos Islands, with less than 10,000 persons. Per capita income varies from less than $300 per year in Haiti and St. Vincent to more than $3000 annually in the Bahamas and Trinidad and Tobago. A discouraging demographic factor is the high percentage of the population under 15 years old which is dependent for support upon a relatively unskilled work force.

### U.S. Investment in the Caribbean Basin

At the end of 1980, U.S. direct investment (equity investment in foreign affiliates plus net outstanding loans to foreign affiliates) in the Caribbean Basin jurisdictions had a value of $10.2 billion, ignoring the Netherlands Antilles where a negative investment was recorded due to the borrowings of U.S. parent corporations through Netherlands Antilles affiliates. Of that amount, $5.9 billion, or 60 percent, was in the Bahamas and Panama. Of the remaining $4.3 billion in investment, about $1.0 billion was in Trinidad and Tobago, $2.3 billion in Jamaica, the other Caribbean islands, Guyana, and Suriname, and the remaining $1.0 billion in Central American countries. A significant portion of the investment in Jamaica, Suriname, and Trinidad and Tobago is in mining (bauxite) or petroleum. U.S. direct investment in manufacturing in the region at the end of 1980 was about $1.0 billion, or approximately 10 percent of the total U.S. investment. Over 70 percent of the investment classified as manufacturing was in Panama and the Bahamas. Majority owned Caribbean basin affiliates of U.S. companies planned about $680 million in capital expenditures during 1980, of which $480 million was in mining and petroleum and $65 million in manufacturing.

## II. Outlines of the Proposal

### Requirements of an Effective Tax Incentive

To be effective, a U.S. tax incentive must cause more U.S. investment to take place in the Caribbean Basin than would otherwise occur. An incentive does this by raising the rate of return on investments, making some profitable which were previously unacceptable. An effective incentive should also attract projects which will continue to benefit the recipient economy after the expiration of the incentive period. The incentive should promote an increase in local production and employment in the Caribbean Basin, rather than simply encouraging transfers of financial or intangible assets. This can best be achieved by encouraging investment in real physical capital. An increased transfer of financial assets to the Caribbean Basin will contribute to economic growth in the Caribbean only if it increases the amount of physical investment or reduces its cost. This growth objective will be frustrated if the increased inflow of funds into the Caribbean is offset by an increased outflow of funds for investment outside the Caribbean.

### Description of the Proposed Legislation

The Act includes an unprecedented extension for five years of the investment tax credit to property which is used predominantly in certain Caribbean Basin countries and which would otherwise qualify for the domestic investment tax credit. A Caribbean Basin country will qualify for this benefit if, first, it has been designated by the President as a country entitled to the benefits of the Act, and second, it enters into a bilateral executive agreement with the United States for exchange of information for tax administration purposes.

The rules and limitations which apply to the allowance of the investment tax credit for property used predominantly in the United States will generally apply to Caribbean Basin property. The regular investment credit is generally available for up to ten percent (10%) of the cost of tangible personal property and other tangible property (generally not including buildings or structural components) used in connection with manufacturing, production, agriculture or certain other activities. A few narrow categories of property, such as qualified rehabilitated buildings and qualified timber property, will not be eligible for the credit if located in a Caribbean Basin country because of the specific statutory provisions governing their eligibility for the credit. In our judgment, it is not advisable to extend the credit for these specialized categories of property.

The sunset provision reiterates that this is a special measure intended to provide economic assistance in an extraordinary situation. At the end of five years consideration may be given to an extension of the credit on a bilateral basis through a tax treaty.

## Relative Advantages of the Investment Tax Credit

A wage subsidy and tax sparing, along with the investment tax credit, were considered as possible incentives for the Caribbean Basin. Since the Caribbean Basin needs to develop the skills of its indigenous labor force, a labor oriented subsidy has considerable intuitive appeal. This type of incentive, however, does not increase the capital-labor ratio and therefore it does not improve the long run productivity of the labor force. It is a temporary incentive that ceases to have effect as soon as wages are no longer subsidized. A country merely tends to become dependent on the wage subsidy, with little prospect for the type of growth and development that will lead toward economic self-sufficiency. The recipient countries themselves may resent a wage subsidy. They may view it as a "colonialistic" attempt by the United States to restrict the Caribbean Basin to the role of a supplier of low wage goods. For these reasons, it is preferable to rely on a capital incentive which indirectly encourages the employment of more labor and which will improve the overall productivity of labor.

Tax sparing is often proposed as an investment incentive for regions like the Caribbean. Tax sparing allows a credit against domestic taxes for taxes an investor is spared from paying when a foreign country reduces or waives tax liabilities as an investment incentive. There are two major economic objections to tax sparing as an investment incentive. The first is that tax sparing is a reward to profits earned during the incentive period, regardless of whether such profits come from prior or new investments. That is, no new investment is needed to obtain the benefits. Thus, there is no assurance that tax sparing will contribute to economic growth by increasing real physical capital investment in the recipient country. Secondly, tax sparing invites non-productive investments, such as the transfer of financial or other intangible assets and the assignment of artificially high profits to such assets, in order to generate tax spared income.

In contrast, the investment tax credit which we are proposing will encourage the placement of machinery and equipment in the Caribbean Basin. The credit depends directly on an investor making a productive investment in the Caribbean Basin. By providing workers with additional capital, it will increase labor productivity and economic growth and development in the region.

Finally, the investment tax credit is independent of the foreign tax credit, requires no revenue sacrifice by the developing countries, and is relatively simple. Potential U.S. investors in the Caribbean Basin region are familiar with the credit as it applies to domestic investments. Its effectiveness will not be undercut by the uncertainty which would accompany any totally new incentive.

## III. Details of the Proposal

### Qualifying Caribbean Basin Countries

A Caribbean Basin country which is designated by the President as eligible for the benefits of the Act will qualify for the extension of the credit only if the country enters into a bilateral executive agreement with the United States to exchange such information as is necessary and appropriate to carry out and enforce the tax laws of the two countries.

Exchange of tax information assists the administration of the tax laws of both the United States and the qualifying country. The tax administrators of the Caribbean Basin countries will have access to information from the IRS regarding their taxpayers who engage in economic activities in the United States and thereby should strengthen their own tax administration. This self-help aspect of the measure is consistent with the overall concept of the Caribbean Basin Initiative. Moreover, the United States will itself require access to such information to adequately administer the tax credit, particularly where a "pass-through" credit is claimed by a five percent (5%) or greater U.S. shareholder in a foreign corporation. (The "pass-through" aspect of the proposal is discussed below.)

In addition, several countries in the Caribbean Basin region are tax havens which have been used both for avoidance and evasion of U.S. tax laws. We do not believe that it is appropriate for countries to benefit from U.S. tax incentives unless they are willing to cooperate with the United States in matters of tax administration.

### Exchange of Information Agreements

The legislation authorizes the Secretary of the Treasury to negotiate and conclude the exchange of information agreements. While the Secretary is accorded discretion regarding what kinds of information will be included within the scope of the exchange of information provisions, the Act imposes certain minimum standards for such agreements.

The exchange of information provisions in the agreements must include within their scope tax information pertaining to "third-country persons," that is, nationals or residents of countries other than the United States or the Caribbean Basin country that is a party to the agreement. This approach is consistent with our present tax treaty policy, embodied in Article 26 of the U.S. Model Income Tax Treaty. In accordance with that policy, a jurisdiction with restrictions on disclosure of information regarding such third country persons would be required to modify such restrictions. The same principle applies with respect to disclosure of information regarding ownership of bank accounts or share ownership. Most countries do not place restrictions on disclosure of such information; such limitations are characteristic primarily of jurisdictions which have organized themselves as tax havens.

The exchange of information agreements will be terminable on reasonable notice by either party. This will permit the credit to be terminated with respect to future investment in the event that the President revokes his designation of the country as a country eligible for the benefits of the Act.

The Secretary may incorporate by reference in an exchange of information agreement the exchange of information provisions of an existing income tax treaty with a Caribbean Basin country, provided such treaty provisions otherwise satisfy the requirements of the statute. Our more recent tax treaties, such as the recently ratified treaty with Jamaica, will satisfy such standards and we would be desirous of extending this tax incentive to these treaty partners as expeditiously as possible. It should be clearly understood that exchange of information agreements may be entered into with a country whether or not the country has a tax treaty with the United States.

It is expected that the exchange of information agreements will generally become effective on signature. The text of the agreements will, of course, be transmitted to Congress not later than sixty days after the agreement has been signed, in accordance with the prescriptions of the Case Act (1 U.S.C. section 112b).

## Predominant Use

Property used predominantly outside the United States generally is not eligible for the investment tax credit. The Act establishes an additional exception to this rule for Caribbean Basin property; that is, property used predominantly in one or more qualifying Caribbean Basin countries is made eligible for the credit.

Under existing Treasury regulations the test for determining predominant use is the physical location test. Thus, if property or equipment is located in one or more qualifying Caribbean Basin countries during more than 50 percent of the taxable year, the predominant use test will be satisfied. The same regulations also provide that the determination of whether a credit is allowable with respect to any property is made only with respect to the year the property is placed in service. If property is thereafter used predominantly outside the United States the credit taken with respect to such property will be subject to recapture. A credit taken with respect to qualifying Caribbean Basin property will be subject to recapture if the property is used predominantly outside one or more qualifying Caribbean Basin countries and the United States.

The Act provides an exception to this recapture rule in the case where a qualifying Caribbean Basin country no longer constitutes a qualifying country because the President's designation of the country as eligible for the benefits of the Act is terminated or the exchange of information agreement is terminated. In such a circumstance, property which continues to be used predominantly in the country in succeeding taxable years without interruption will not be subject to the recapture rules. It would not be equitable to subject the credit for such property to recapture because of an event which is not within the taxpayer's control.

## Pass-through of Credit to Five Percent U.S. Shareholder of Foreign Corporation

To summarize my discussion to this point, the credit will be allowed to a U.S. citizen, resident, or corporation that invests in property that is used predominantly in one or more qualifying Caribbean Basin countries after the enactment of the Act. Under present law, however, the credit would not be available to a U.S.

shareholder that makes an equity investment in a foreign corporation that invests in qualifying property. Where, for reasons of local law or accepted business practice, it is necessary that the business activity be carried on through a "host country" corporation, allowance of the credit solely with respect to property owned directly by a U.S. person would not constitute an effective investment incentive.

To surmount this problem and ensure the effectiveness of the credit as an investment incentive, we have designed a pass-through mechanism which would allow the credit on a current basis to a U.S. shareholder that owns five percent or more in value of a foreign corporation's stock, subject to certain limitations.

The pass-through credit is computed with respect to the shareholder's pro rata share of the foreign corporation's investment in Caribbean Basin property. The shareholder's pro rata share of such investment is limited for this purpose, however, to the amount of the shareholder's actual additional equity investment in the corporation after the date of enactment of the Act. The purpose of this limitation is to key the incentive in these circumstances to new equity investment which is permanent in nature and subordinate to debt claims or trade payables. In our view, new equity investment is the kind of investment which is likely to be responsive to the credit and which will form the base for continued future growth in the Caribbean Basin economies.

The limitations on the pass-through credit also take into account the concern that the credit is allowed currently while income earned by a foreign corporation is generally not subject to U.S. taxation until it is repatriated as a dividend to the U.S. shareholder. It is for this reason that the pass-through credit is not allowed with respect to investment of retained earnings of the foreign corporation in Caribbean Basin property. The foreign corporation's investment must be attributable, directly or indirectly, to new equity investment by the U.S. shareholder. This protects against the possibility of an initial profitable investment generating a continuous series of credits for a shareholder while U.S. tax on the income generated by such investment is deferred.

### Summary View of Investment Tax Credit

The five year extension of the credit I have described is an innovative, carefully targeted incentive for new physical investment in Caribbean Basin countries. This proposal represents as powerful a tax incentive for investment as is feasible without disturbing the integrity of our tax system. Its revenue cost will be about $50 million in 1983.

### Relation of Extension of Credit to U.S. Tax Treaties

The United States has a number of tax treaties with countries in the Caribbean Basin region, including extensions of certain of our older treaties with the United Kingdom and the Netherlands. It is our longstanding tax treaty policy to provide U.S. source basis tax benefits to the residents of the treaty partner and to obtain tax benefits for U.S. residents. We do not, as a general rule, limit our residence basis taxation of our citizens and residents. The decision to provide a tax credit incentive for investment in qualifying Caribbean Basin countries is generally at variance with our treaty policy of not limiting (or reducing) U.S. taxation of our citizens and residents. This decision highlights the special nature of our relationship to the Caribbean Basin region and the importance we attach to this Initiative.

Countries outside the Caribbean Basin region will, no doubt, seek similar benefits through tax treaties. The United States has exchanged notes with a number of developing country tax treaty partners in which we acknowledge the partner's desire to include investment incentives in the treaty, but state that the United States is not in a position to agree to such incentives. The letters go on to state that if policies change in this regard in the future, the United States will reopen discussions with a view to amending the treaty to include an investment incentive. These countries may view the extension of the tax credit as such a change in our policy. A decision regarding further extensions of the investment tax credit, both to existing and new treaty partners, would not be made without full consultation with interested Congressional committees.

The extension of the investment tax credit for Caribbean Basin property is not inconsistent with this Administration's strong policy against use of our tax treaties for conduit investments in the United States by residents from countries other than our treaty partner. Our opposition to such tax treaty abuse is sound international tax policy and consistent with the objectives of our Caribbean Basin Initiative. The purpose of the Initiative is served by encouraging increases in productive economic activity and self-sustaining growth in the Caribbean Basin countries. This purpose is not served by creating or sustaining tax haven activity which is contrary to U.S. tax treaty policy, undermines the operation and administration of the Internal Revenue Code, and fosters an increased dependence by the tax haven country on the United States.

## IV. Puerto Rico and Other U.S. Possessions

As an essential counterpart to the proposals to assist Caribbean Basin countries, the Act includes important tax incentive and revenue measures for Puerto Rico and the U.S. Virgin Islands. Some of these measures will also benefit other U.S. possessions.

### Background of the Legislative Measures Affecting the Possessions

Puerto Rico and the U.S. Virgin Islands have a special and historic relationship with the United States which this Administration recognizes and values. U.S. tax policy has long extended favored tax treatment to investment in Puerto Rico, the U.S. Virgin Islands and other U.S. possessions. The passage of the Economic Recovery Act of 1981 (ERTA), however, substantially, but unintentionally, reduced the effectiveness of these incentives. Further, making the investment tax credit available to investment in qualifying Caribbean Basin countries will encourage investment in the Caribbean Basin, possibly to the detriment of Puerto Rico and the U.S. Virgin Islands. It is essential that Puerto Rico and the U.S. Virgin Islands share in the expected economic progress, growth, and stability in this region. Special investment incentives must be provided for these possessions so that the development in the Caribbean Basin induced by the Initiative does not occur at the expense of Puerto Rico or the Virgin Islands.

The importance of the measures contained in this legislation is underscored by the adverse economic situation facing Puerto Rico. The Puerto Rican unemployment rate is approximately 22 percent, with no immediate prospect of decreasing. Investment in plant and equipment in 1980, after adjusting for inflation, was only one-half the value of investment in 1970. Between 1980 and 1981, the number of contractual agreements between the Puerto Rican Economic Development Administration and potential non-local investors dropped sharply. This drop in new contractual agreements indicates that the number of manufacturing plants beginning operation in Puerto Rico in the immediate future is likely to fall.

To adjust for the impact of ERTA and the Caribbean Basin Initiative, the Administration is proposing to extend certain tax incentives for investment to the U.S. possessions and to modify the rum excise tax payment arrangements with Puerto Rico and the U.S. Virgin Islands. Although the tax incentives will be available to the U.S. Virgin Islands and all other possessions, their principal impact will be with regard to business operations in Puerto Rico.

## Existing U.S. Tax Policy Toward Puerto Rico

The encouragement of manufacturing investment in Puerto Rico is a longstanding tenet of Federal tax policy. This principle is rooted in the belief that increased capital investment is the most effective way of encouraging real economic growth in Puerto Rico. Generally speaking, the Federal tax laws have encouraged Puerto Rican investment by exempting income from such investment from U.S. taxation. Puerto Rico has, in turn, granted tax holidays for most manufacturing operations. Thus, U.S. manufacturing corporations operating in Puerto Rico generally pay little or no U.S. or Puerto Rican tax.

Under section 936 of the Code, a U.S. corporation (the 936 corporation) deriving income from Puerto Rico is subject to Federal tax on its worldwide income, but a special credit available under section 936 fully offsets the Federal tax on income from a trade or business in Puerto Rico or from "qualified possessions source investment income." A U.S. corporation which owns at least 80 percent of a section 936 corporation is also exempt from Federal tax on the dividend income from the 936 corporation. Since 1948, Puerto Rico has had a complementary program of tax exemption, called Operation Bootstrap, under which exemptions from Puerto Rican tax have been offered as incentives to U.S. companies to invest in manufacturing plants in Puerto Rico.

Prior to the passage of the Economic Recovery Tax Act of 1981, section 936 provided a significant incentive to invest in Puerto Rico compared to the United States. By reducing the effective corporate tax burden on U.S. investment through the Accelerated Cost Recovery System (ACRS) and liberalizing the investment tax credit, ERTA erodes the relative value of the Puerto Rican tax incentive. Once the provisions of ERTA are fully effective, a substantial amount of U.S. investment will be taxed nearly as favorably as Puerto Rican investments, thus eliminating any tax incentive for investing in Puerto Rico. The Administration proposes to restore the incentive to invest in Puerto Rico by extending the benefits of ACRS and the investment tax credit to U.S. corporations operating in Puerto Rico and the other possessions. Restoration of the incentive will require that the full investment tax credit plus one-half of the ACRS deductions be made available to a U.S. corporation owning a section 936 corporation.

## Description of Tax Incentives

Under present law, property used predominantly outside the United States generally is not eligible for the investment tax credit. However, property owned by a domestic corporation and used predominantly in a U.S. possession qualifies for the credit unless the domestic corporation has in effect an election to claim a Puerto Rico or possession tax credit under section 936 (a section 936 corporation) or is entitled to the benefits of section 934(b), relating to reduction in tax liability incurred to the Virgin Islands (a section 934(b) corporation). Also, property owned by a U.S. citizen and used predominantly in a U.S. possession qualifies for the credit unless the U.S. citizen is entitled to the benefits of Code sections which limit U.S. taxation of income derived in a U.S. possession. The Caribbean Basin Economic Recovery Act would allow the investment tax credit for any property owned by a section 936 or 934(b) corporation or by a U.S. citizen entitled to the benefits of such Code sections and which is used predominantly in a possession of the United States. The Act also provides that property used in a possession would be eligible for the recovery lives generally available for property not used predominantly outside the U.S. Thus, it will extend ACRS to property used in a possession.

Because section 936 and 934(b) corporations would be unable to use these tax benefits, the Act provides for a pass-through of the investment tax credit and fifty percent of the cost recovery deductions attributable to property owned by a section 936 or a domestic section 934(b) corporation to certain U.S. corporations that together own 80 percent or more of the stock of the section 936 or 934(b) corporations. Thus, a U.S. corporation that would be a member of an affiliated group that includes the section 936 or domestic 934(b) corporation (but for special rules excluding section 936 and 934(b) corporations from an affiliated group), would be allowed the investment tax credit and fifty percent of the cost recovery deductions otherwise allowable to the section 936 or domestic 934(b) corporation.

## Effect of Proposal

These investment incentive provisions will reduce the cost of capital and promote real economic growth in Puerto Rico, the U.S. Virgin Islands, and other U.S. possessions. This proposal will restore the relative preference for investment in Puerto Rico that existed prior to the passage of ERTA. It reaffirms the Congressional policy of encouraging investment in Puerto Rico and provides a significant incentive to invest in the plant and equipment which is vital to economic growth of the possessions. Its revenue cost will be about $55 million in 1983, rising to $100 million annually by 1985.

## Disposition of Excise Taxes on Rum

Under present law, the Internal Revenue Code imposes an excise tax on rum. All taxes collected under the Internal Revenue Code on rum produced in Puerto Rico or the U.S. Virgin Islands and transported to the United States (less the estimated amount necessary for payment of refund and drawbacks), are paid to Puerto Rico or the U.S. Virgin Islands, respectively.

At present, Puerto Rico and the U.S. Virgin Islands supply about 90 percent of the U.S. rum market. Rum produced in Puerto Rico and the U.S. Virgin Islands enters the United States duty free. The reduction in import duties on rum produced in other Caribbean Basin countries, provided for in the trade title of the Act, will reduce the Puerto Rican and U.S. Virgin Islands' share of the U.S. rum market. This will adversely affect the rum industry in Puerto Rico and the U.S. Virgin Islands and reduce the amount of U.S. excise tax collections which they receive.

In order to maintain this revenue source for the islands, the legislation provides that all excise taxes collected at the current tax rates on rum imported into the United States from any country (less the estimated amount necessary for payment of refunds and drawbacks) will be paid over to the treasuries of Puerto Rico and the U.S. Virgin Islands. The amount per proof gallon paid over will not exceed the amount per proof gallon which would have been paid over if the rum had been produced in Puerto Rico or the U.S. Virgin Islands. The Secretary of the Treasury will prescribe by regulations a formula for the division of these tax collections between Puerto Rico and the U.S. Virgin Islands. The estimated revenue cost of this provision is about $18 million in 1983.

## Questions Submitted by Senator Inouye

### EXTERNAL ECONOMIC DISEQUILIBRIA

Senator Inouye: It has been said that, "The major objective of the aid components of the CBI (Caribbean Basin Initiative) will be to assist the countries of the Basin in overcoming their external economic disequilibria over the next few years through sound stabilization and recovery programs."

What was the combined current account deficit for all countries in the Caribbean Basin in 1981?

Mr. Enders: The combined current account deficit was slightly over $3.2 billion in 1981.

Senator Inouye: In addition to the $350 million supplemental funding proposal, the United States has programmed $140 million in fiscal year 1982 assistance. In terms of balance of payments support, how much of a funding short-fall will this leave?

Mr. Enders: For more complete information, I would like to provide you our estimates of the overall balance of payments gaps faced by each of the seven countries, plus the Eastern Caribbean region, we wish to help through supplemental finance. In each case, the tables show the projected current account deficit, total capital inflows, including those budgeted from the U.S., and exceptional finance from the IMF, IBRD and our proposed supplemental finance. The "Unfinanced Gap" shown on each table is the amount still needed, after all assistance sources are taken into account, to fund the country's balance of payments gap.

BELIZE
Balance of Payments Gap - 1982
($ millions)

| | | |
|---|---|---|
| Current Account | | - 54 |
| Capital Account | | 23 |
| CDB | 5.4 | |
| UK | 11.4 | |
| EDF | 3.0 | |
| Canada | 1.4 | |
| CDC | .5 | |
| Ven/Mex | 4.7 | |
| Gap | | 31 |
| Additional Finance | | |
| IMF | 6 | |
| US Supplemental | 10 | 16 |
| Unfinanced Gap | | 15 |

## COSTA RICA
Balance of Payments Gap - 1982
($ millions)

| | | |
|---|---|---|
| Current Account | | - 393 |
| Capital Account | | 181 |
| Private | 0 | |
| Official | 181 | |
| AID | 50 | |
| IBRD | 31 | |
| Ven/Mex | 57 | |
| FRG | 15 | |
| Japan | 7 | |
| Gap | | - 212 |
| Additional Finance | | |
| IMF | 72 | |
| US Supplemental | 70 | 142 |
| Unfinanced Gap | | 70 |

## HAITI
Balance of Payments Gap - 1982
($ millions)

| | | |
|---|---|---|
| Current Account | | - 176 |
| Capital Account | | 148 |
| Gap | | 28 |
| Additional Finance | | |
| IMF | 25 | |
| US Supplemental | 5 | 30 |
| Reduction in Arrears | | 2 |

## HONDURAS
### Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | - 398 |
| Capital Account | | | 277 |
| Private | | 75 | |
| Intermediaries | | 12 | |
| SDR & Other | | 25 | |
| Official | | 165 | |
| AID | 42.6 | | |
| IDB | 63.7 | | |
| CABEI | 19.7 | | |
| IBRD | 31.3 | | |
| Ven/Mex | 15.9 | | |
| Gap | | | - 121 |
| Additional Finance | | | |
| IMF | 27 | | |
| US Supplemental | 35 | | 62 |
| Unfinanced Gap | | | 59 |

## JAMAICA
### Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -584 |
| Capital Account | | | 311 |
| Private | | 7 | |
| Official | | 304 | |
| UK | 10 | | |
| Canada | 15 | | |
| IDB | 30 | | |
| IBRD | 30 | | |
| OPEC | 10 | | |
| Ven/Mex | 75 | | |
| Trinidad/Tobago | 30 | | |
| Decrease in Arrearages | | | - 30 |
| Gap | | | -303 |
| Additional Finance | | | |
| IMF | 119 | | |
| IBRD | 75 | | |
| US Supplemental | 50 | | 244 |
| Unfinanced Gap | | | 59 |

## EASTERN CARIBBEAN
Balance of Payments Gap - 1982
($ million)

| | | |
|---|---|---|
| Current Account | | 150 |
| Capital Account | | |
| Private Capital | 40 | |
| U.S. | 18 | |
| U.K. | 12 | |
| Canada | 10 | |
| CDB | 12 | |
| EDF | 8 | |
| Others | 15 | |
| Additional Finance | | 12.9 |
| IMF | 2.9 | |
| U.S. | 10 | |
| Unfinanced Gap | | 22.1 |

## EL SALVADOR
Balance of Payments Gap - 1982
($ millions)

| | | | |
|---|---|---|---|
| Current Account | | | -361.5 |
| Capital Account | | | 164.7 |
| Private | | - 50 | |
| Official 1/ | | 214.7 | |
| AID | 122.5 | | |
| IDB | 64.8 | | |
| Ven/Mex | 48.4 | | |
| CABEI | 13.8 | | |
| Gap | | | -196.8 |
| Additional Finance | | | |
| IMF | | 85 | |
| Arrearages | | 40 | |
| | | 45 | |
| US Supplemental | | 128 | 173 |
| Unfinanced Gap | | | 23.8 |

1/ Official capital data are available from the GOES on a net basis. Individual donor figures are from donors on a gross disbursement basis.

DOMINICAN REPUBLIC
Balance of Payments Gap - 1982
($ million)

| | | | |
|---|---|---|---|
| Current Account | | | -806 |
| Capital Account | | | 619 |
| Private | | 320 | |
| Official | | 299 | |
| AID | 24.3 | | |
| IDB | 93.2 | | |
| IBRD | 70.0 | | |
| IDA | 14.4 | | |
| USCC | 57.0 | | |
| Other | 40.1 | | |
| Gap | | | -187 |
| Additional Finance | | | |
| IMF | 72 | | |
| IBRD | 20 | | |
| US Supplemental | 40 | | 112 |
| Unfinanced Gap | | | 75 |

## ASSISTANCE BY OTHER DONORS

Senator Inouye: The United States program is, according to Mr. Reich, "To be viewed as part of a larger package of assistance which includes resources made available by other donors..."

What, specifically, are the components of this larger package?

What resources are being made available by Canada, Mexico and Venezuela?

Mr. Enders: Canada has embarked on a five-year expanded program of economic development cooperation with the English-speaking Caribbean and also with Haiti, the Dominican Republic and the countries of Central America, at a value of over one-half billion dollars. Canadian tariff treatment currently provides duty-free or preferential access to the Canadian market for some 98 percent by value of all exports from the Caribbean Basin area to Canada. In the context of the Canada/CARICOM Joint Trade and Economic Agreement of January 1979, Canada is engaged with the Commonwealth Caribbean in a wide range of programs to promote regional integration, industrial development, and cooperation between Canadian and Caribbean private sector organizations. Canada has recently established Petro-Canada International to assist oil-importing developing countries, including those in the Caribbean Basin area, to reduce or eliminate their dependence on imported oil.

Mexico's principal contribution to the region is through the joint Mexican-Venezuelan oil facility. This program currently finances 30 percent of Mexico's and Venezuela's oil shipments to Barbados, Costa Rica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Nicaragua and Panama. For the second year of the facility, Mexico will provide an estimated $198 million in assistance - which runs from August 1981 to July 1980. In addition to this agreement, Mexico grants trade preferences to El Salvador, Guatemala, Costa Rica, Panama and the Caribbean Common Market (CARICOM). The preferences, which take the form of 50 to 75 percent export rebates on about 25 products from each country, are generally for the principal exports of these countries. Mexico also finances over 200 industrial technical assistance grants in the Basin.

In addition to the assistance provided jointly with Mexico under the oil facility (valued at $194 million for the second year of the facility), Venezuela has provided balance-of-payments assistance totaling $90 million to Jamaica, the Dominican Republic, Costa Rica and El Salvador. Venezuela has announced that $69 million in project related loans will be granted in Central America in 1982. The beneficiaries will be El Salvador, Nicaragua and Costa Rica. Venezuela is also a generous donor to multilateral institutions such as the IDB and the OPEC Special Fund.

Senator Inouye: What resources are being made available by the International Monetary Fund?

Mr. Enders: Drawings made by Caribbean Basin countries from the IMF in 1981 under stabilization programs and the compensatory financing facility amounted to over $400 million.

Senator Inouye: Are IMF stabilization programs presently in place? In which countries?

Mr. Enders: Jamaica and Dominica have operative EFF (extended financing facility) agreements. Guatemala and Grenada have operative stand-by arrangements. Panama recently completed a successful two-year (1980-81) standby and has renegotiated a new one-year standby (pending IMF board approval). El Salvador also recently negotiated a standby which is awaiting board approval. Costa Rica, Honduras, Haiti, and Guyana are attempting to renegotiate inoperative stabilization programs.

## PRIVATE BANK CREDITS

Senator Inouye: A recent Bank for International Settlements Report indicates an acceleration in the withdrawal of commercial bank lending programs in the Caribbean region. This is even more pronounced in short-term credits.

Can this be regarded as a private sector vote of confidence in the Administration's program?

Mr. Enders: I can't speak for the banks, but certainly no banker I know would base his lending policy on a complex package of legislation which has not yet been passed into law by the Congress. I believe the drop in commercial bank lending simply reflects the fact that we and the banks share a common understanding of economic conditions in the Caribbean Basin. Many countries in the region are undergoing severe economic and balance of payments problems. Without a restructuring of those economies, better trading opportunities, increased investment and a higher level of outside assistance, the Caribbean Basin faces continuing economic decline and the social/political strains resulting from low standards of living and hopelessness. The banks are rightfully concerned with today's conditions, but they have not yet had an opportunity to vote on tomorrow's solutions.

Senator Inouye: How does the Administration propose to address this problem?

Mr. Enders: We can address the credit shortage only by addressing the underlying problems which created it. The first step must be a commitment by this government and the others with which we have been working to help Basin countries help themselves. That commitment alone will help ease the crisis of confidence among local and foreign investors, as well as with commercial lenders. More fundamentally, the positive effects of the kind of balanced development program embodied in the Caribbean Basin Initiative will result in growth, a better balance of payments position, and improved creditworthiness. Bank lending programs will respond to those new realities.

Senator Inouye: Does the Administration propose to offset the withdrawal of private credits through increased assistance?

Mr. Enders: We cannot and should not see our assistance as a substitute for private credits. Our aim must be to encourage a return to normal credit relationships by improving productivity and creditworthiness in the Basin. The ESF financing we propose will help bridge the gap while other elements of the CBI package and self-help measures take effect. As they do, bank financing should return and the need for ESF financing shuld decline.

Senator Inouye: What is your estimate of total short-term debt in the Caribbean Basin countries?

Mr. Enders: We believe that total short-term debt is approximately $2.2 billion. That estimate certainly understates this debt, in large part because these debts are often owed by individuals to private companies and are never reported to local governments.

## COSTA RICA -- PRIVATE AND OFFICIAL FLOWS

Senator Inouye: The flow of private bank credits to Costa Rica dropped precipitously from $315 million in 1980 to a negative $38 million in the first half of 1981.

How does the Administration propose to stop this hemorrhage of bank credits?

Mr. Enders: The reversal of private capital flows to Costa Rica in 1981 was a result of doubts about the country's credit-worthiness. The country's mounting debt, rising current account and public sector deficits, and falling coffee prices led many banks to seek to limit their exposure there. We believe that this capital outflow can be reversed only after the Costa Rican government implements a comprehensive, internationally accepted program of economic stabilization, including an IMF agreement, rescheduling of external debt payments, and reduction of the public sector deficit. Such measures, when combined with increased international assistance and with the kind of trade and investment opportunities which the President's proposals seek to create, can restore the confidence of the international financial community in Costa Rica.

Senator Inouye: What is the total amount of assistance proposed or programmed for Costa Rica in Fiscal year 1982?

Amb. Enders: $13.0 million in AID development assistance, $20.0 in ESF earmarked by the Congress, $18.3 in PL-480, plus $70 million of the supplemental ESF request, for a total of $121.3 million.

## PATERNALISM

Senator Inouye: When the President addressed the Organization of American States on February 24, he said, in reference to past relationships with the nations of the Caribbean and Central and South America, "No matter how good our intentions were, our very size may have made it seem that we were exercising a kind of paternalism." He also said, "Aid is an important part of this program because many of our neighbors need it to put themselves in a starting position from which they can begin to earn their own way." Now, this might be regarded by some as "a kind of paternalism."

Can you explain what the President meant by the words "begin to earn their own way"? Is it not true that many of the nations in the Caribbean Basin were earning their own way before they were hit with extraordinary oil price increases?

Mr. Enders: By "earn their own way" I think the President meant that countries can finance their growth and investment out of their own savings and export earnings, and through international credit on a commercial basis. When oil prices were low and commodity prices relatively high, most of the Caribbean Basin economies were able to finance growth largely from these sources, with only modest amounts of concessional assistance.

Of course, these conditions have changed dramatically. Most Basin countries now have enormous balance of payments deficits. They need to adjust to the new set of economic circumstances they face in the international economy -- which means that their production must become more energy-efficient and export-oriented. They must thus (1) reduce consumption to adjust to their falling export earnings and increased fuel import costs, and (2) simultaneously cut consumption still further to finance the producer-goods imports needed for the new output pattern.

This adjustment is particularly difficult because, as very small economies, they manufacture very few if any of their own producer goods. It is, so to speak, a double whammy that affects economies inversely to their size. Moreover, to avoid these wrenching adjustments in the future, small economies must eventually move to more open and flexible systems that are able to respond more smoothly and quickly to the major forces in the larger world economy. The belt-tightening which they must undergo to effect all these adjustments is extraordinarily severe. They need our assistance to ease the pain of adjustment and to speed the recovery process; the people of the Basin will be able to see that their sacrifices are bringing forth a better future.

Senator Inouye: Why does the President believe "our neighbors need our help to develop representative and responsive institutions"? Are they not capable of developing their own institutions? Is the suggestion that we must help not evidence of a kind of paternalism?

Mr. Enders: The Basin countries are coping with severe problems of unemployment, inflation, capital flight -- conditions which undermine the hope of citizens in a decent future, much less a prosperous future. The Basin countries need time and help to reverse this economic crisis and thereby to restore the confidence of their citizens in the ability of their institutions to function effectively.

Our package of assistance to the region is merely that -- assistance. In the last analysis it is the responsibility of the countries themselves to take the measures necessary to restore themselves to vigorous health. We can help in that process, and in some cases our help -- and that of other interested countries and institutions -- can be crucial. But our help must be given in such a way that it respects the experience of the countries involved and elicits the maximum of their courage and intelligence in resolving their own problems. We have therefore devised this program in close consultation with the countries involved and with other interested countries and institutions. Our program will be implemented in a flexible way, reflecting the individual problems of each country in the region within a multilateral and consultative context.

## PRIVATE SECTOR CONFIDENCE

Senator Inouye: One of the arguments made in support of the Caribbean Basin program is that it will strengthen private sector confidence, both domestic and foreign.

Can it not also be said that increased military assistance to the Caribbean Region intensifies the private-sector's preception of risk and that the program, as proposed has an inherent contradiction?

Mr. Enders: The legislation we have already submitted to Congress contains only economic measures designed to stimulate private sector production. A proposal for increased military assistance we plan to submit in separate supplemental legislation this fiscal year will be primarily for two countries -El Salvador and Honduras. We believe that this commitment to assist friendly governments will have a positive, rather than a negative impact on private sector confidence in these two countries, and in the Basin as a whole.

Senator Inouye: What, specifically, does the Administration propose to do to strengthen private-sector confidence?

Mr. Enders: Private-sector confidence will be bolstered through improved production opportunities provided by the CBI legislation. But the CBI will also strengthen confidence by demonstrating our strong, long-term political commitment. The Free Trade Area, for example, represents a twelve-year commitment on our part.

Domestic policy adjustments by Caribbean and Central American governments can also have a key confidence-building effect. Under the CBI, we intend to encourage these countries to develop economic frameworks which will allow the private sector, both foreign and domestic, to operate more effectively.

Senator Inouye: Does the Administration propose to provide increased amounts of government guarantees or risk insurance to the private sector?

Mr. Enders: We have established an inter-agency working group to examine alternatives for a wider risk-insurance umbrella. These options include, inter alia, a multilateral insurance scheme, greater private insurer participation, and more flexible OPIC coverage in the Caribbean Basin.

## HAITI

Senator Inouye: Mr. Reich, you have stated that A.I.D. is increasingly "emphasizing administrative and managerial training to improve the efficiency of both the public and private sectors." As an example you cite a project in Haiti which "will assist the government in implementing policy and administrative reforms."

I would like you to discuss this project, but first I would like to read a quote from a recent GAO report:

> "Since 1973, the United States has provided Haiti about $218 million in food aid and economic assistance. After 8 years of operating in Haiti, A.I.D. is still having difficulty implementing its projects. Past projects, designed to improve Haitian Government institutions, have had only limited impact, and many projects have suffered serious delays."

How will A.I.D.'s proposed project address the problems found by the GAO?

Mr. Reich: We appreciate the GAO's interest in the A.I.D. program in Haiti. The recent GAO report came out of a GAO field review conducted in September 1981 -- barely one month after a new A.I.D. Director arrived in Haiti. He went down with instructions, based on our own prior study of the Haiti program, to make a number of changes and to reorient the program. Since then, acting under that guidance, he has refined the objectives of the program and redirected the focus of the projects towards many of the concerns expressed in the report.

Senator Inouye: The GAO has recommended that the Agency refocus emphasis from long-term institution-building to one that will provide shorter-term direct impact on the poor. Will A.I.D. follow this suggestion?

How? Through greater use of private and voluntary organizations?

Mr. Reich: Most of A.I.D.'s program in Haiti, 50 percent of which is implemented through private and voluntary organizations (PVOs), addresses the most serious aspects of poverty and disease which require urgent response for humanitarian and development reasons. These A.I.D. projects also support long-term institution building in order to establish a framework within which future development actions could be continued by the Haitians themselves.

In those cases where the Government of Haiti's commitment or where the ability to benefit from specific projects has been found wanting, A.I.D. has not hesitated to terminate projects and deobligate funds. Several projects are presently under similar close scrutiny. Where development efforts clearly show progress, A.I.D. is proposing expansion of efforts and commensurately increased funding levels. In those sectors and activities where priority development needs funded by A.I.D. cannot be addressed adequately through projects implemented directly by and through the government, the projects are implemented instead by U.S. and local PVOs.

Whether implemented by U.S. or local PVOs, or more directly by A.I.D., most A.I.D.-funded projects include training as one of the project components. In addition, the Government of Haiti, in conjunction with A.I.D. and the International Monetary Fund, is embarked on a set of internal policy and administrative reforms of their development institutions. Results of some of these reforms are already visible in better project supervision and management. Another major and highly significant component of the reform effort calls for decentralization of government planning and administration and the strengthening of Haiti's local-level community action councils. Emphasis on community action councils signals a radically new and potentially significant change in attitude on the part of the Government of Haiti, which heretofore had kept control of all development activities highly centralized exclusively within the various ministries in the capital.

Senator Inouye: What amount of funding is Haiti to receive under the Caribbean Basin Initiative?

Mr. Reich: Haiti is slated to receive about $37 million--which includes $12 million of Development Assistance, $20 million of P.L. 480 resources, and $5 million of Economic Support Funds--in support of the Caribbean Basin Initiative in FY 1982. The ESF assistance in the supplemental request will emphasize private sector, job-creating enterprises. This may include provision of credit to a private sector agroindustry and industrial financial institutions as well as some assistance to the important housing construction industry.

Senator Inouye: It has been suggested that the Caribbean Basin Initiative is, in part, designed to meet the problems associated with Caribbean migration.

Do you believe A.I.D.'s proposals will slow the flow of Haitian refugees?

How?

Mr. Reich: The Caribbean Basin Initiative, which includes trade and investment provisions in addition to financial aid, is not directed at illegal migration per se. If this initiative and other assistance to Haiti over the long term is successful and has a positive impact on economic development of the country, resulting improved economic conditions will help alleviate some of the root causes of migration from that country.

## CAPITAL FLIGHT PROBLEMS

Senator Inouye: Mr. Reich, you have said, "An improved climate of confidence will also slow and ultimately reverse the flight of domestic capital abroad."

Just how serious has the problem of capital flight been in recent years?

Mr. Reich: Capital flight is a common problem of countries experiencing social and political unrest. It has been widely acknowledged that it became a serious problem in El Salvador in 1979 and 1980 when the reforms were initiated and violence escalated, though capital flight from that country has now dropped below its peak as the private sector has made its accommodation to the reforms. Capital flight has also been a factor in a number of other Caribbean Basin countries in the last few years, but its relative importance is difficult to judge. Apart from measurement problems, discussed in the answer to the next question, there are serious conceptual problems in identifying capital flight. What is reported as capital flight often includes two other short-term capital outflows that are motivated by common business sense. These flows, which are temporary, would occur regardless of the social and political situation. For example, short-term capital will move overseas to take advantage of significantly higher interest rates abroad. Likewise, short-term capital will move abroad in anticipa- of a devaluation at home. Once appropriate corrective economic policy measures are taken, these income-motivated and speculative flows will be reversed. Unfortunately, there is no good way to separate these capital movements from true capital flight, the magnitude of which is often exaggerated.

Senator Inouye: How have you measured the amount of capital flight?

Mr. Reich: There is no reliable way to measure capital flight. The various indicators that can be used as evidence of capital flight can give conflicting information not only about the magnitude of capital flight but also about the direction of these flows. A widely-used indicator of capital flight -- which we do look at -- is the short-term private capital account in the balance of payments. Unfortunately, this account also includes not only the income-motivated and speculative capital flows mentioned in the answer to the previous question, but also flows associated with the financing of commercial transactions. Furthermore, in some countries this account includes errors and omissions-- the item that brings the debit transactions into balance with the credit transactions. The International Monetary Fund has cautioned that a negative errors and omissions figure should not automatically be equated with capital flight. There are many other kinds of international transactions that fail to get recorded or that are not measured accurately.

Another indicator that has been used to measure capital flight is changes in the free-market or black-market exchange rate. Again, though, factors other than capital flight influence exchange-rate movements. There are also problems in looking at data on a country's deposits in U.S. banks. These data can be misleading because they fail to take into account, for example, shifts out of bank accounts into real estate, about which we do not have good data. They also fail to take into account inter-country shifts in flight capital deposits. For example, increased bank deposits in the United States by residents of country X do not necessarily mean that capital flight from that country has increased. What may instead have happened is that relative interest rates have risen in the United States and that residents of country X have simply transferred their funds from, say, Europe to the United States.

While we do look at various quantitative indicators such as those just described, and obtain qualitative judgments from experienced observers in the countries where we have programs, it is not possible to have more than a rough idea of the order of magnitude of capital flight.

Senator Inouye: How will the Agency assure that the proposed assistance does not join the flow of domestic capital from these countries?

Mr. Reich: Import transactions made possible by our assistance will be monitored to check for evidence of overinvoicing as a means of transferring capital abroad. Our concern, however, is not just with true capital flight but with short-term capital outflows generally. That is why our assistance will be linked with sound stabilization and recovery programs, generally supported with International Monetary Fund assistance, that remove the distortions giving rise to income-motivated and speculative outflows of short-term capital, and that create incentives for productive investment in the Caribbean Basin countries themselves.

Senator Inouye: Of the $350 million in additional Economic Support Fund assistance requested for Fiscal Year 1982, how much will be provided in the form of unrestricted transfer payments?

Mr. Reich: None of our assistance will be provided as an unrestricted transfer payment. All of it will be conditioned on sound economic stabilization and recovery programs.

Senator Inouye: Is it, in fact, true that assistance tied to specific projects is easier to control than assistance in the form of unrestricted transfer payments?

Mr. Reich: Yes. That is why our program assistance is not unrestricted but is subject to conditions.

Senator Inouye: Have you made any assumptions regarding "leakages"? That is, do you expect that a certain amount of this assistance will be diverted or otherwise be sent out of the recipient countries?

Mr. Reich: There are always some risks that leakages will occur. We seek to minimize these risks by monitoring import transactions and by linking our assistance with sound stabilization and recovery programs. Sound programs and policies are more effective in restricting short-term capital outflows than direct controls. If there are economic incentives to send money out of the country, entrepreneurial initiative can always find new, ingenious ways to get around the controls.

Senator Inouye: How much do you assume will be lost through leakages?

Mr. Reich: By monitoring import transactions and linking our assistance to sound economic policies and programs, we assume that relatively little will be lost through leakages.

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

### INFRASTRUCTURE

Senator Johnston: Most of the small Caribbean islands have serious infrastructural deficiencies such as unreliable power systems, lack of water, lack of adequate transportation facilities, etc. All these deficiencies present severe obstacles to economic development.

Yet, my general impression is that the funding for the Caribbean Basin in FY 1983 requested by the Administration is about 2/3 for short-term needs (food aid under PL 480 and Economic Support Fund dollars to help alleviate severe balance of payments crises -- must of which, I might add, is attributable to cost of imported oil) and only about 1/3 is for Development Assistance to fund projects to try to deal with the underlying infrastructure problems such as improving agricultural production to promote food self-sufficiency, developing alternate energy supplies and reliable power systems, improving transportation facilities, improving water systems, etc. Why?

Mr. Enders: In most of the Caribbean and Central America, the infrastructure is adequate to support the early growth of labor-intensive industries. By their nature, these industries do not require extensive infrastructure. For most Basin countries, the key constraint is short-term liquidity, which we are addressing through our CBI supplemental.

The situation in the small islands of the Eastern Caribbean is somewhat different. There, foreign exchange scarcity _per se_ is not a serious constraint. While infrastructure is not as well developed as in some other Basin countries, we believe it is generally sufficient to support a number of labor-intensive industries. Nearly all islands have airport and harbor facilities which can be utilized by small aircraft and vessels for cargo shipments. While electricity rates tend to be higher than in the U.S., power generation is generally adequate, or capable of being expanded as demand warrants. We and other donors are, however, prepared to explore with these Eastern Caribbean governments which are willing to look at their own policies with regard to the private sector areas where economically-sound infra-structure improvements are necessary to promote private sector investment and expansion.

In this manner, we will continue to provide development assistance to address long-term needs, with increased emphasis on constraints to private sector investment and expansion. At the same time, we believe government policies (e.g., price controls, exchange rate valuation, land tenure and credit policies) should also be carefully examined for their effects in stimulating the private sector, particularly in agriculture.

Senator Johnston: Why do you believe that private companies will significantly increase long-term investment in areas with such infrastructure deficiencies?

Mr. Enders: We believe that infrastructure in the small islands is, in general, adequate to support labor-intensive industries. In cases where economically sound infrastructure improvements could directly affect private sector inventment and expansion, we and other donors are prepared to examine these improvements with the governments of the islands.

Senator Johnston: What are the known infrastructure needs in each area? Please submit a list for the record and compare each with projects for which funds are budgeted under Development Assistance in our bilateral aid programs and projects underway through International Financial Institutions such as the Inter-American Development Bank.

Mr. Enders: As I indicated previously, infrastructure in most Caribbean and Central American countries is adequate to support new private investment in the labor-intensive industries for which they currently enjoy comparative advantage. The infrastructure of small islands of the Eastern Caribbean, does warrant further evaluation. In the Eastern Caribbean, we have already provided some selected infrastructure improvements directly linked to private sector production in such areas as road rehabilitation, development of industrial states, alternative energy, and the more effective use of water resources.

As part of the CBI, we will consider further assistance in this area. But even in the Eastern Caribbean, the existing infrastructure has supported the establishment of a number of new labor-intensive industries in the last few years.

## ADVANTAGES OF FREE TRADE AREA

Senator Johnston: Since about 87% of products from the Caribbean already enter duty-free, what are the real advantages of so-called Free Trade Area concept? How much will this really stimulate private investment? And how many new jobs will be created over the next five years?

Mr. Enders: The 87 percent figure on existing trade is misleading. The duties which remain in place are in sectors of special interest to Basin countries. We can expect significant growth in these sectors once duties are removed, and the establishment of new industries.

In addition to the duty-free treatment, we intend to provide technical assistance to help countries overcome non-tariff trade problems, such as meeting our health and sanitary regulations, and improving marketing. These barriers have often been as significant as tariffs for some products.

I cannot provide you with a specific figure on the number of jobs we expect will be generated. Since the total population of the Caribbean countries is some 17 million, and of Central America, 22 million, the number of jobs that will need to be created to affect their economies significantly is not that large.

## PUERTO RICO AND US VIRGIN ISLANDS

Senator Johnston: There are two showplaces of democracy in the Caribbean which I believe may have been given the "short shrift" -- our two insular areas, the United States Virgin Islands and the Commonwealth of Puerto Rico.

While several minor concessions were made, unlike the $350 million supplemental now pending for the Economic Support Fund for nations in the Caribbean, no additional funds have been requested in FY 1982, no revised budget estimates have been submitted for FY 1983 and indeed no legislation has been submitted to authorize projects the Administration announced as part of the CBI for Puerto Rico and Virgin Islands for those projects requiring new authority. This is perceived by some in those areas as symbolic of the inattention of the Administration to their needs.

When will legislation be submitted to authorize the Tropical Agricultural Research Center in Mayaguez? When will funds be requested for this project?

Mr. Enders: Due to budgetary constraints funding will not be requested to establish a separate Tropical Agricultural Research Center. However, to further the integrated agricultural development of the Caribbean Basin, we will make greater use of the agricultural and forestry research extension and training facilities of the Federal Government and those of Puerto Rico and the United States Virgin Islands, especially the Tropical Agricultural Research Facility at Mayaguez, Puerto Rico.

Senator Johnston: When will funds be requested for the Caribbean Cultural Center at the College of the Virgin Islands?

Mr. Enders: It has not yet been decided whether the Department of the Interior will make a special supplemental request in FY 82 for the $150,000 that would be needed for this project.

Senator Johnston: When will funds be requested for airport expansion at St. Thomas and St. Croix? (ADAP funds for FY

1983 total $450 million, and will likely be targeted to making safety improvements only; the St. Thomas expansion is not all safety-related work. In addition, DOT has yet to devise a plan for FY 1982 funds already appropriated. Therefore, simple reliance on $15 million from 1983 ADAP funds will likely not result in these two projects being undertaken as promised in the CBI, without significant Administration pressure to do so or additional funding requests from the Administration. Neither has occurred to date.)

Mr. Enders: The Administration understands the need for expansion of these airports and we are committed to completion of the airport expansion at St. Thomas. Timing and source of funds are yet to be determined, pending outcome of ADAP legislation.

## PROPOSALS BY PUERTO RICO AND THE U.S. VIRGIN ISLANDS

Senator Johnston: A number of items were suggested by the Governments of Puerto Rico and the U.S. Virgin Islands to help offset the impact of new trade and tax proposals for the Caribbean. Most of these were NOT included in the CBI package. Why?

Please give a reason for the exclusion of each of the following, indicate whether or not it is now being given serious consideration, and when a determination will be made where appropriate:

First, modification of the Jones Act to exempt Puerto Rico from limits now in effect on foreign passenger ships originating from the Mainland whenever they stop over in Puerto Rican ports, providing no comparable service is provided by U.S. flag carriers.

Mr. Enders: Baltazar Carrado, Resident Commissioner of Puerto Rico, has introduced legislation in Congress which would allow non-U.S. flag passenger service between Puerto Rico and the mainland where there is no competing U.S. service. OMB has distributed the bill for comments by the executive agencies. The Administration has made no recommendation to date on the bill.

A second proposal relates to extending cruise vessel stopover time in Puerto Rican ports beyond the current 24-hour limit imposed by the Treasury. The Maritime Administration has elicited comments from numerous interested parties and will incorporate these in its recommendation to the Customs Service in the near future.

Senator Johnston: A second point is modification of DOT regulations with respect to the cost of shipping for Puerto Rico where Puerto Rican economic development is being retarded thereby (and particularly exempting NAVIERAS from FMC rate setting).

Mr. Enders: The Department of Transportation is engaged in a general review of shipping regulations with a view to eliminating those regulations which are not cost-effective or which add increases in freight rates without corresponding public benefit. With regard to rate regulation of NAVIERAS, the FMC recently invited comment, in a public proceeding, on proposals to reduce or eliminate rate regulation of domestic offshore trades.

Senator Johnston: The third point is allowing insurance of Puerto Rican agricultural crops by the Federal Crop Insurance Corporation and extending to Puerto Rice rice supports.

Mr. Enders: The Puerto Rican Department of Agriculture requested reinsurance from the Federal Crop Insurance Corporation to begin May 1, 1982. The request was reluctantly denied because of the unavailability of funds and the requirements of mainland programs. Discussions are underway to prepare for a reinsurance program which would begin in May 1983. Discussions on specific aspects of crop support programs are also anticipated.

Senator Johnston: The fourth point is grant assistance to develop CORCO facilities for use as a Caribbean refining site of Mexican and Venezuelan petroleum.

Mr. Enders: We support the optimum development and utilization of petroleum refinery capacity in the Caribbean Basin. The recent removal of export quota restrictions on petroleum products allows the CORCO refinery to compete for processing of Mexican and Venezuelan crudes for regional oil product needs. After careful consideration, however, the Administration decided it could not support the provision of grant assistnce or loan guarantees for capital investment in heavy oil cracking facilities at the CORCO refinery. Private sector financing is available for refinery investment; for example, we understand that Sun's Puerto Rican refinery is investing in conversion facilities on its own. Such complicated investment decisions are best left to private sector to make, and currently there is considerable redundant refinery capacity in the Caribbean Basin.

Senator Johnston: The fifth point is grant assistance to the Virgin Islands to improve power and water facilities, pursuant to the plan submitted by the Government of the Virgin Islands to the Department of the Interior last year.

Mr. Enders: I understand that is being discussed in the Department of the Interior. I suggest you contact them directly for a status report.

Senator Johnston: The sixth point is funding for alternate energy projects in Puerto Rico and the Virgin Islands, and particularly funding for an OTEC project, ranked as one of the top two received by DOE in response to a solicitation offered last year from a technology standpoint.

Mr. Enders: The DOE is currently evaluating bids received for an OTEC demonstration project. The Puerto Rican proposal is indeed one of those under consideration.

Senator Johnston: The final point is modification of bilateral air treaties to increase foreign carrier entry into San Juan.

Mr. Enders: During the February round of U.S.-Canada aviation negotiations, the U.S. side proposed the creation of scheduled air links between San Juan and the Canadian cities of Montreal and Toronto. Further discussion of this and other U.S. and Canadian route proposals is scheduled to resume in Washington on May 3.

## EXIM BANK

Senator Johnston: The fact sheet on the CBI put out by the White House indicates that Eximbank financing will be used to encourage private investment in the Caribbean.

Do you intend to request additional funds in FY 1983, beyond the budget request submitted in February, to support these activities? If not, from which areas will the funds for the Caribbean come from?

Mr. Enders: We are not seeking any increase in Eximbank authorities for FY 1983 to accommodate the CBI. We do expect, however, given present estimates of worldwide demand, to be able to meet an increase in Eximbank support activities in the Caribbean Basin region in FY 1983 without sacrificing programs in other areas.

## CONTRIBUTIONS TO THE INTER-AMERICAN DEVELOPMENT BANK

Senator Johnston: Is the funding increase budgeted for FY 1983 for the Inter-American Development Bank (IDB), which is about $45 million, related to the CBI?

Mr. Enders: Our funding request for the IDB in FY 1983 is not aimed at the CBI. Our FY 1982 appropriation of $173.2 million for the Fund for Special Operations (FSO) will provide the third installment to the Fifth Replenishment of the IDB. We have requested in FY 1983 a total of $284.1 million for the IDB to meet our past and current obligations to the IDB. Of this, $62.4 million will complete our subscription to the paid-in capital portion of the Fifth Replenishment, and $221 million is for the FSO. Of the latter, $175 million is for our fourth installment to the Fifth Replenishment of the FSO and $46 million is in partial payment of our arrearages to the Fourth Replenishment of the FSO which accounts for the increase you mention.

Negotiations are currently underway for the Sixth Replenishment to the IDB for the period 1982-1986. US subscriptions to this Replenishment would be requested in our FY 1984 budget. We hope to see a greater concentration of IDB concessional resources during the period of the Sixth Replenishment to the countries greatest in need, most of which lie within the Caribbean Basin.

## SUBCOMMITTEE RECESS

Senator **KASTEN**. I will now recess the subcommittee subject to call of the Chair.

[Whereupon, at 3:25 p.m., Wednesday, March 17, the subcommittee was recessed, to reconvene at the call of the Chair.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, APRIL 22, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met, at 2 p.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## GENERAL ACCOUNTING OFFICE

### INTERNATIONAL DIVISION

### STATEMENT OF FRANK C. CONAHAN, DIRECTOR, INTERNATIONAL DIVISION, GENERAL ACCOUNTING OFFICE

**ACCOMPANIED BY:**

**HARRY FINLEY, ASSOCIATE DIRECTOR, INTERNATIONAL DIVISION,**

**SAMUEL W. BOWLIN, ASSOCIATE DIRECTOR, INTERNATIONAL DIVISION**

### INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon the subcommittee will receive testimony from the International Division of the General Accounting Office and from the Inspector General of the Agency for International Development. These two offices have the responsibility of auditing, reviewing and inspecting the U.S. foreign assistance programs and other matters related to foreign policy.

Our first witness will be Mr. Frank C. Conahan, Director of the International Division of the General Accounting Office.

Mr. Conahan, you may proceed. I understand you have a prepared statement. That will be made a part of the record. If you can summarize your statement in whatever form you think is most convenient, then there will be more time to respond to questions.

Mr. CONAHAN. Thank you, Mr. Chairman.

I would like to do precisely that. With me to answer questions after I do make a few points are Samuel Bowlin on my right and Harry Finley on my left who are in charge respectively of our economic and military assistance work in the agency.

### AID PROJECT MANAGEMENT

I would like to start by saying, over time, we have made quite a few recommendations on ways AID could improve its program planning, project implementation, monitoring and evaluation. We have seen recent progress toward improved project planning and implementation, but quite frankly we believe much remains to be done.

Since 1973 there has been a rather significant slowdown in the number of AID projects that have been completed, and we believe there are many factors for this, and we have reported in terms of those AID needs to address to correct it.

We believe that one thing AID has failed to do over time is to take advantage of lessons learned from the projects that it has carried out over the past 30 years. It does not have a very good system for collecting those lessons, and there does not seem to be an incentive within the agency for those lessons to be gathered and applied to project design on a current basis.

### HOST COUNTRY CONTRACTING

Another aspect of program implementation has to do with the matter of host country contracting. I believe that the AID Inspector General, who is here today, is going to go into that in some detail. I would like to point out that we support his findings in that regard.

We are also nearing completion of a review involving the increasing use of private voluntary organizations in the AID program. We believe that there are two sets of problems associated with that involvement.

One is that we believe that the agency needs to define the purpose for which these agencies are to be used in the program, and for the PVO's part, we believe there are substantial opportunities to improve their program.

There is another matter which we think needs close watching, and that has to do with the increasing PVO financial dependency on AID funding.

In addition to the AID program, our reviews have also been directed to the Inter-American Foundation, the Peace Corps and U.S. involvement in refugee programs. In that regard we have a report which will be out very shortly concerning projects carried out by the Inter-American Foundation, and I think it will show some of the same design and implementation problems that AID has experienced over the years.

### MILITARY ASSISTANCE

Just a word or two, if I may, about our security assistance work. With the decline in grant-aid military assistance, U.S. security assistance has taken the form of loans and guarantees, but climbing interest rates are making the FMS loans a burden and drain on limited resources of many recipient countries. This is particularly true in the case of such countries as Turkey and the Sudan.

The administration sees a need to provide concessional terms for Turkey and the budget proposal before the Congress specifically calls for funding of loans for military sales at various interest rates geared to the recipient countries' ability to pay. We believe pressure for this type of concessional funding will continue to build in the future, and we need seriously to consider its implications.

Another matter of concern is the method used by the Departments of State and Defense to assist arms recipients in need of financial assistance. In the case of both Egypt and Israel a so-called cash flow method of financing is being used which permits the countries to order military equipment in excess of the authorization granted for those countries by the Congress.

We believe that this method of financing places considerable pressure upon the Congress for future authority, and that it may bind us to some commitments that have not been given the proper consideration in Congress.

### PREPARED STATEMENT

Our prepared statement mentions a number of other reports we have issued concerning both economic and military assistance, but I think, sir, these are the points that need to be made in order to take any questions you might have at this time.

Thank you.

[The statement follows:]

# PREPARED STATEMENT OF FRANK C. CONAHAN
## DIRECTOR, INTERNATIONAL DIVISION
## GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide an overview of our recently completed and on-going work on U.S. foreign assistance programs and projects.

We will discuss our work on bilateral and multilateral developmental assistance and military assistance. We believe that implementation of our recommendations will bring about program improvements; reduce costs; and provide better opportunities for congressional oversight.

## BILATERAL ASSISTANCE

Our bilateral economic assistance reviews continue to emphasize programs which are managed and disbursed by the Agency for International Development (AID). Much of our work focuses on the efficiency and economy of AID assistance regarding food, health, natural resource conservation, and human resource development. We also continue to report on the effectiveness of AID functional assistance in meeting developing nations' unique needs. We have made observations on ways AID could improve its program planning, project implementation, monitoring, and evaluation. We have seen recent progress at AID toward improved project planning and implementation, but much remains to be done.

### AID project management

Since AID's inception, over 8,745 projects have been completed costing about $15.5 billion. As of September 30, 1981 another 1,973 projects were underway with estimated costs to AID of over $11.4 billion. Since 1973 there has been a significant slowdown in the number of AID projects completed and a dramatic increase in the agency's committed, but unspent funds (about $5.2 billion as of September 1981). While there are many factors that have contributed to AID's slow project completion record, we have reported on some which we believe AID can influence in a positive manner. We have emphasized the need for AID to better use lessons learned during the past 3 decades of designing, programming, and implementing projects in developing countries. We have suggested that AID should increase recipient-government involvement in program design and management for U.S.-supported projects. In this context, we have suggested that AID emphasize the ability of host countries to carry projects through the implementation phase and to sustain the recurring costs of generated activities when external financing ends.

For example, we reported in 1981 that the management and effectiveness of AID projects in health-care, water development, agriculture assistance, and disaster assistance, as well as projects to strengthen governmental institutions, ultimately depend upon the ability of host countries to absorb U.S. aid and implement the projects. Without this ability, and/or host government willingness to support projects, the results are either large obligations of unspent assistance funds or expenditure of funds for projects with limited life after U.S. assistance is terminated.

Our February 22, 1982 report on Haiti is our most recent view of AID's difficulty in implementing projects. We recommended that AID should avoid further delays in project implementation by working directly with the Haitian people until the Government of Haiti could effectively meet project responsibilities.

Another aspect of the problem of program implementation is under review in a current study on how efficiently AID funds are spent and how effectively AID program objectives are met through contract arrangements for supplies and services between contractors and host countries. Our study's preliminary results confirm our concern and that of the AID Inspector General that (1) AID has not accumulated complete data on the extent of its host-country contract activities and that (2) accountability processes and procurement procedures could be improved.

Private-sector emphasis

AID has recently placed increased emphasis on mobilizing greater participation of the U.S.-private sector in overseas development and in promoting and encouraging the expansion of local, private-sector activities in developing countries. The administration believes that increased private-sector participation in development will help developing countries generate capital and decrease the need for traditional forms of U.S. assistance. In addition to the new initiatives, the United States has been funding a number of programs to encourage more active private-sector participation in development. These programs include the Trade and Development Program and the OPIC program on which we issued reports in 1981.

In August 1981, we issued a report that was intended to help the U.S.-development community consider different ways to use trade as a development mechanism. We examined how four developing countries have used trade in their economic development process and what assistance is provided in this area by bilateral and multilateral donors. We examined obstacles for developing countries to implement, maintain a successful trade strategy and how these obstacles are being addressed. Obstacles we reviewed included lack of trained personnel, marketing experience, quality control, available credit, and tariff and non-tariff measures in potential or actual markets.

We are presently reviewing the extent to which AID promotes and works with U.S. and host-country private sectors. This assignment includes the identification of (1) programs which are directed toward, and implemented through, the private sector and (2) funds spent on procurement of goods and services both here and in developing countries.

We are also nearing completion of another review involving the relationship of private and voluntary organizations (PVOs) in the U.S.-development assistance program. Our tentative findings are that AID and the PVO's have yet to forge an effective partnership - AID still needs to define its purposes for, and the scope of, the partnership. We believe the PVO's have opportunities to improve their program impact and, along with AID, should reassess the present direction of increasing PVO financial dependency on AID funding.

Economic Support Fund

The United States also provides assistance through the Economic Support Fund (ESF). ESF resources may be allocated to countries in amounts which may not be justified solely on the basis of development need when U.S. security interests would be served. Although ESF resources may be spent for such needs as financing commodity imports or to support balance-of-payments, the funds intended for development projects must be spent, to the extent possible, according to the accountability criteria used for functional development assistance.

We note that the administration plans to increase ESF as part of an emphasis on international security assistance to stabilize countries which are threatened by external intervention and to provide resources to allow for base rights negotiations. As mentioned previously, we have expressed concern about the adequacy of planning and monitoring for AID's established programs for development assistance; thus we are concerned that the nature of ESF programs (administered through AID and subject to similar congressional mandates and agency regulations) are even more difficult to monitor. We are beginning a study that will specifically review the adequacy of AID financial and programmatic controls of commodity import and other balance-of-payment support. We are planning to report the results of our study prior to hearings on the 1984 budget.

Other bilateral programs

Our recent reviews of bilateral assistance are not limited to the programs of AID but also cover the Inter-American Foundation (IAF), Peace Corps, and the U.S. involvement in refugee programs. The objective of these reviews is to note the need for program efficiency and to identify needed improvements for management attention.

In this regard, we are completing a review of the Inter-American Foundation which was created by the Congress in 1969 as an experimental program designed to provide new direction and emphasis for U.S.-assistance programs in Latin America. From our review of selected IAF projects in Latin America, we found that the majority have a good chance of meeting some or all of their objectives. A number of problems, both in project design and implementation, limit achievement of project objectives. We also observed that opportunities exist for IAF to provide more effective monitoring and supportive activities for projects; to improve coordination with other development assistance efforts in the region; and to systematically disseminate its experience with experimental and innovative projects. We expect the final report to be issued in June 1982.

Our May 1981 report on the adequacy of the preparation of volunteers for Peace Corps service contained recommendations which were generally accepted by the Peace Corps. We recommended that the Peace Corps establish centralized and uniform policies and procedures for selecting and training volunteers, and for evaluating reasons for volunteer attrition. Recently, as called for in legislation signed on December 29, 1981, we monitored and reported on what we believed to be an equitable separation of Peace Corps from ACTION.

In addition to reviewing the U.S.-direct assistance to refugee programs, we also take into account the Department of State's and AID's management responsibilities to coordinate the U.S. contributions to the various international organizations involved. Since April 1975, we have reported on the problems encountered in the protection, care, and processing of Indochinese refugees and are currently reviewing the implementation of new U.S. screening policies for Indochinese refugees. We are also now undertaking a study of the status of U.S. and international assistance to African refugees.

## MULTILATERAL ECONOMIC ASSISTANCE

Our work concerning the U.S. participation in the provision of multilateral economic assistance concentrates on identifying opportunities to reduce costs and to improve management effectiveness. For example, we reported in September 1981 that the United Nations member countries wanted to shift resources from completed, obsolete, marginally useful, and ineffective activities to new activities, but that limited identification of such activities had taken place. We recommended to the Secretary of State that U.S. efforts be intensified to overcome the slow progress of the United Nations to control costs by identifying and reducing marginal activities. As slow as these efforts have been, they are only directed at the U.N. assessed budget. There is no specific program to identify marginal activities in organizations supported through voluntary contributions. We do note, however, that the Department of State has included the elimination of marginal programs and activities as an objective for U.S. membership in the United Nations.

In April 1981, we reported that the multilateral banks, of which the U.S. is a member--the Inter-American Bank, the World Bank, and the Asian Development Bank--have made progress in implementing independent evaluation systems. We made recommendations to the Secretary of the Treasury to encourage more improvements in this area.

We are planning to start a review of the changes the administration is proposing in U.S. participation in international organizations and financial institutions. These changes include cutbacks and deferrals in U.S. contributions and subscriptions along with continued U.S. emphasis on controlling costs on the part of these international organizations.

## MILITARY ASSISTANCE

Turning now to our work on U.S. security assistance programs overseas, we would like to discuss our recent reports and on-going or planned reviews on Foreign Military Sales (FMS) and program management.

## Questionable ability to repay FMS loans

Providing military aid to countries suffering severe economic problems is a major concern for the administration and the Congress. With the decline in grant-aid Military Assistance Program, U.S. security assistance has taken the form of loans and guarantees, but climbing interest rates are making the FMS loans a burden and a drain on the limited resources of many recipient countries.

For example, our recent report on the implementation of the Defense and Economic Cooperation Agreement with Turkey pointed out that Turkey's foreign debts were rescheduled in 1980 to keep it from defaulting. We noted that by 1984, Turkey will owe over $200 million per year for interest and premium payments on U.S. FMS loans and if the U.S provides large amounts of additional loans at market interest rates in the next few years, that debt service burden will increase even more. The administration sees a need to provide concessional terms for Turkey. The budget proposal for International Security Assistance before the Congress specifically calls for the funding of loans for military sales at variable interest rates geared to the recipient countries ability to pay.

We believe that pressure for this type of concessional financing will continue and build in future years. We are beginning work now to look at the options available to the United States in dealing with strategic allies determined to be in need of military equipment and unable to afford the high costs and high interest rates.

## Cash flow financing

Another matter of concern is a method used by the Departments of State and Defense to assist arms recipients who are in need of financial assistance. For example, Egypt received $1.5 billion in loan guarantees and credits after the Egypt-Israel Peace Treaty, plus another $500 million in 1981. Using this $2-billion credit authorized through fiscal 1981, Egypt placed orders for U.S.

equipment valued at over $3.5 billion. This was possible because of the so-called "cash flow" authorization given to Egypt by the administration. Israel is also authorized to finance its program in this way.

Under normal FMS financing procedures the United States requires most buyer countries to reserve, or obligate, the full cost of the item when the order is placed. This means that if an item costs $100 million, FMS credits of $100 million must be set aside when the letter-of-offer is signed. Under the cash flow system, however, Egypt sets aside only the amount of money needed to meet the current fiscal year's cash requirement and has been able to place orders valued at 70 percent more than the available credit guarantees. Egypt has already incurred debts of about $900 million in 1982 and over $600 million in 1983 for equipment now on order. Egypt has no likely source of cash to make these payments--other than future U.S. credit authorizations.

This method of financing again places considerable pressure on the Congress to continue providing substantial levels of credit and we believe it represents a serious long-term commitment by the United States in which there is no statutory requirement to inform the Congress or seek congressional approval. As we reported to the Senate Foreign Relations Committee in January 1982, the full ramifications and implications of this authorization for Egypt were not presented to the appropriate committees and thus may not have been subject to close congressional scrutiny.

## Appropriateness of delivered equipment

Some foreign policy decisions regarding the types and amounts of weapons financed by FMS, have budget and appropriations impacts. For example, in our January 1982 report, we reported that while Egypt's needs are so great that any new equipment is welcomed, some of the security assistance financing provided by the United States was used for items that met more of a political need than a military one. F-4s, for example, were provided in 1979 because they were available quickly from U.S. inventory and were desirable to Egypt because of Israel's successful use of F-4s in the 1973 war. However, F-4s are difficult to maintain and require sophisticated supply and maintenance capabilities, and Egypt has had difficulty in maintaining acceptable operational rates. Our report on the security assistance program in Korea, to be issued shortly, highlights similar questions concerning the sale of F-16 aircraft and points out some possible alternatives for the U.S.

## Technology transfers

Another aspect of arms sales is the transfer of sophisticated technology to countries that could some day be potential competitors. We focused on this issue in our March 1982 report on military aircraft coproduction programs with Japan. Japan is doing major manufacturing work on the F-15 aircraft it is now buying and, in the process, is receiving considerable new technology for its aircraft industry. Japan has selected its commercial aircraft industry for major expansion and competition in the international market. Thus, we believe that over time military aircraft coproduction programs will provide the industry valuable technology and experience to help its development. We believe that it is important to note that these considerations apparently were not a factor in the decisions to release various technologies in the coproduction program. Most importantly, some U.S agencies concerned with trade implications were not directly involved in the decision-making process.

## Administration of security assistance

Finally, I would like to mention briefly our work on the administration of the security assistance program by U.S. managers. We reported last year on the need for the Foreign Assistance Act to cover the leasing of military equipment to foreign countries, and the need to clarify the functions permitted to be performed by the overseas security assistance branch offices. Our concerns were addressed by the International Security and Development Act of 1981.

This concludes my prepared remarks, Mr. Chairman. We will be pleased to answer any questions you may have.

### PROBLEMS IN AID PROJECTS

Senator **Kasten**. Thank you. Thank you also for summarizing your statement as quickly as you did.

I wonder if you could give us a specific example or two on your first point that we continually find that AID is not making use of lessons that have been learned.

Are you suggesting that something we learn to do right or mistakes we have made in Egypt are not being carried over in Africa, or are you saying in Egypt we are doing the same thing wrong time after time?

Mr. **Conahan**. I think some of each of those things. In the first instance there is no systematic collection of the problems that AID projects encounter. There has not been over the years. There is no central repository where an individual who is now designing a project can go and look for the problems that were encountered in a similar kind of project last year or the year before or a dozen years ago.

Second, people rotate frequently, as we all know, within the Agency. A project officer simply is not in a country long enough to correct the second kind of problem you are talking about. This cuts across all kinds of projects at which we have looked recently.

We have looked at health care projects. We have looked at conservation projects and at university contracting projects. We found the same kind of management problems in those projects.

I think I would like a moment, if I may, to discuss the university relationship with AID. I think it was the 1975 legislation which urged AID to use universities to an increasing extent in the AID program. That involvement has increased somewhat.

In addition to the involvement of the individual universities in individual projects, a relationship has been built up in terms of a strengthening grant program between AID and the universities. I think since 1975 we have spent about $25 for these strengthening grants. Quite frankly we have not seen much in the way of benefit coming out of that expenditure of funds.

AID has been using universities for 30 years, and its missions don't see any significant difference in the way they can effectively use those universities today from what they were able to do before the 1975 legislation.

### AGENCY ADHERENCE TO GAO RECOMMENDATIONS

Senator **Kasten**. Is the problem, you believe, that some of your findings and recommendations are simply not being taken seriously? Or do you think that the recommendations are being taken seriously, but we need to set up a formal mechanism in one way or the other, even through legislation, whereby agencies and departments will be required to act, or this particular agency would be required to act on certain specific recommendations?

Mr. **Conahan**. I think that there should be some mechanism in place which would require agencies to act not only on GAO recommendations, but the recommendations of the various Inspectors General. There is a provision of law, section 236 of the Legislative Reorganization Act of 1970, which requires agencies to report to the House Government Operations Committee and Senate Governmental Affairs Committee, as well as the Appropriations Committees on actions taken on GAO recommendations.

That system throughout the Government is somewhat mixed. The responses are indeed being made. The responses frequently are not very good. So I think that system can be improved upon, and our office is doing some things in that regard.

Also we have not found much evidence in the way of seeing incentives within the Agency for complying with our recommendations or for trying to correct the problems that we have identified. There has been some progress, but it is not what it needs to be.

### INDIVIDUAL PERFORMANCE RECORDS

Senator KASTEN. In that regard, do you think that one method of alleviating this problem might be emphasizing individual performance vis-a-vis implementation as part of performance records?

In other words, rather than grading a person, it seems to me we are doing a lot of evaluation based on his or her ability to dream up new projects and present new proposals, that somehow more emphasis should be placed on the ability to implement projects once they are in place?

Mr. CONAHAN. I suppose we have to take a step back a moment and talk a bit about what AID people do overseas. For the most part, AID people are not involved in implementing projects. They are designing projects, and they are required to monitor and evaluate projects.

Private organizations, including contractors, universities and so on, for the most part these days, are carrying out projects.

Senator KASTEN. It seems that the emphasis is on the first part. You said first of all they design, and then they monitor the implementation. It seems to me in the second part there is less effort and a whole lot less interest.

Mr. CONAHAN. I think also, without deviating from your question, but stepping back a moment, improvements need to be made in the design of the project. In direct response to your question I would agree, if a system could be devised it would be extremely helpful.

Conceptually I would agree with you. Conceptually they are the sorts of things that a performance appraisal system needs to take into account, yes, sir.

### RESULTS OF GOVERNMENT REPORT

Senator KASTEN. A number of months ago you issued a report entitled "Disappointing Progress in Improving Systems Resulting in Billions Lost in Audit Findings."

Has this report generated any improvement?

Mr. CONAHAN. That was a Government-wide report. I think it is a little too early to tell. I am not aware of any new legislative proposals following that report.

Mr. BOWLIN. May I add, our office has, working with congressional committees, established a task force to follow up on that report, which was a Government-wide effort to give impetus to the need for action on recommendations, not only our own, but also Inspectors General recommendations.

Mr. CONAHAN. Mr. Chairman, let me also add that in our work we have close liaison with the Inspectors General throughout the Government and in particular with AID. We are aware that the followup system devised by the present AID Inspector General is working quite well, and we are fairly happy with the one in AID, but it is relatively new, and I think we are going to have to look at it over a longer period of time to see precisely its impact.

### HOST COUNTRY CONTRACTS

Senator KASTEN. Your statement spends some time discussing host country contracts used by the Agency for International Development. Do you believe that we, in fact, lose money in the process of these host country contracts or is it simply less efficient?

I would like you to develop your concerns with host country contracts.

Mr. CONAHAN. I think that we need to recognize up front that the officials AID are dealing with in many of these countries do not have the necessary technical or managerial expertise to do a first-rate job. In a number of these countries, graft and corruption is at a higher rate than we would like to see. In the absence of monitoring, effective monitoring, on the part of AID, I think that there are inefficiencies in that system.

Clearly we have found indications of waste and misuse. In fact, the report that we will issue in the next few weeks concerning the Inter-American Foundation, since that is fresh in my mind, will show cases of waste, misuse and diversion of funds, and I think that is not unlike what we have seen over time in aspects of the AID program.

This adds up to less for the dollars we are putting in.

### MANAGEMENT CAPABILITY OF HOST GOVERNMENT

Senator KASTEN. One of the goals, though, is that we need to develop this management capability on behalf of the host country and part of what we are doing is trying to help them not only develop an infrastructure, but also trying to help develop managerial talents, accounting skills, different kinds of leadership and managerial abilities.

That is hard to measure in dollars I guess, but do you agree this is one of the goals?

Mr. CONAHAN. Not only do I agree it is one of the goals, I think it is an extremely important goal. I think all these efforts will not amount to very much unless we do help develop those skills so that they can carry on the projects that AID and other donors are devising.

One of the changes we have noted in our work over time, and perhaps this is a result, a direct result of the new directions mandate as well as some thinking immediately prior to that time, is the decrease in training from the early years in the public administration area. We had a lot of people from U.S. Government agencies overseas involved in such matters as tax administration, but we don't have much of this any more.

We have found that generally in the financial management area people in a lot of the developing countries are not receiving training. As a matter of fact, our own organization, together with the national audit authorities of other countries, sponsor and support a training program in auditing and financial management, generally for participants from the less developed countries. There is a great need for that training.

### REVIEW OF PRIVATE VOLUNTARY ORGANIZATIONS

Senator KASTEN. Can you give us some of your preliminary findings on your review of the private voluntary organizations? Also I would be interested in knowing if the PVO's have been cooperative in providing you with the necessary information so that you can conduct your review in the way you would like and receive the information you would need?

Mr. CONAHAN. To take the last part first, yes, they have been very cooperative with us, not only during the course of the development of the work, but also in responding to our tentative conclusions. The results of our work show that the projects these organizations have carried out, those included in our test, had mixed results.

We looked in some detail at about 15 or 16 projects. About half were judged by us to be successful. Perhaps as many as nine were judged to be truly successful—they met the goals set out—but the others were deficient in meeting their goals.

The reasons for this were fairly clear throughout the projects we looked at. Experience in the country and skill of the individuals working in the PVO organization were factors. Headquarters support and indeed the relationships, both the personal and institutional relationships, that were built up between the PVO and the host government entity responsible for carrying out the project were also factors.

So, I suppose the best I can say at this point is that the results have been mixed. As I mentioned a little earlier, a different kind of concern comes from the fact that AID itself has not yet clearly defined what it expects from these organizations, what sort of assistance effort should go to a PVO as contrasted to a university.

Finally, I think we have to watch very, very carefully the extent to which these PVO's are relying on AID financing for their continuation. We have noted some cases where an organization in a country delayed getting into something awaiting AID financing. It just wasn't in a position otherwise to act until the AID financing came. I think that is a problem.

### DEPENDENCY ON AID FUNDING

Senator KASTEN. That is a significant problem. I don't know about the ones you studied, but some of the private voluntary organizations receive close to 100 percent of their funding from AID. We can argue how do we qualify a private voluntary organization if they are getting 90 percent or 80 percent of their money from AID.

First of all, I don't know whether any of the ones you studied fall in this category. What effect do you believe this dependency on AID funding has on these organizations, especially the ones above

75 percent? I suppose these people who are awaiting the funds to begin the activity might fall in that class.

Second, what would you think of the requirement that in order to qualify as a PVO, 50 percent of their funding had to be from private sources?

Mr. CONAHAN. I would think rationale and justification for using a PVO in the first instance has to do with the fact that the PVO has something special or something unique to contribute to a particular developmental effort. If that is so, I would have to think that increased dependency of a PVO on AID would move the PVO away from its individual unique contribution.

That is to say it would be more pliant to the suggestions and even the whims of AID. I am not sure that is what we are looking for. These organizations have done good work over a long period of time. I think what we are looking for here is some kind of partnership down the road because we believe that was consonant with the AID objective.

Insofar as the financial requirement is concerned, yes, we support it without qualification. I think right now there is a requirement that these organizations show funding on the order of 20 percent of the total project cost from themselves. But of course they can use the contribution by the host government and others in order to make up their contribution.

Just in number, we support a 50-50 arrangement without qualification.

### NONGOVERNMENT RESOURCES FOR PVO'S

Senator KASTEN. How does the GAO interpret the 20 percent requirement for non-U.S. Government resources for PVO's? Does it apply it to matching grants?

Mr. CONAHAN. Sam, can you answer that.

Mr. BOWLIN. Could you repeat that?

Senator KASTEN. How do you interpret the 20 percent requirement for non-Government resources for PVO's? Do you apply it to matching grants?

Mr. BOWLIN. I don't think I can answer that specific question. I know that we had supported an increase in the percentage with our recommendations. But I am not sure we have looked at matching grants from that standpoint.

Senator KASTEN. I think it is fair to say, if I can summarize this general area, that you are in general agreement that keeping these private voluntary organizations private and voluntary and setting up some kind of financial structure that would make them private and voluntary would be, you believe, in the best interest of the program?

Mr. BOWLIN. Yes, sir, absolutely.

### CASH FLOW FINANCING PROBLEMS WITH EGYPT

Senator KASTEN. As you may know, I returned from the Mid-East last week.

Could you discuss the cash flow financing problems, especially as they relate to Egypt mentioned briefly in your statement?

Mr. CONAHAN. Yes, sir.

Senator KASTEN. I guess that is probably the best example of a clogged pipeline. Maybe you have a better one, but I would like you to discuss in general what is going on there.

Mr. CONAHAN. You are talking about the economic AID pipeline?

Senator KASTEN. Yes.

Mr. CONAHAN. I am afraid that we don't have much current information on that at the moment. We do know that it makes up about half of the total AID pipeline at the moment.

Mr. BOWLIN. It is close to half of a $5 billion pipeline, in terms of committed but unspent funds. This was a question in our report last year on the agricultural assistance to Egypt.

Our basic concern was that over a 5-year period there was very little progress in moving those projects from a design stage to implementation, and thus spending the money for the purposes for which it was intended and the pipeline continues to grow.

### ECONOMIC ASSISTANCE TO EGYPT AND ISRAEL

Senator KASTEN. One of the things that I discussed with a number of Egyptian officials, including President Mubarak, was the difference in the way we handle the economic assistance to Egypt and Israel. One, for all practical purposes, is a blank check and the other is very specific—project by project.

I would be interested in your opinion, particularly in the case of Egypt, but it may be true in other countries. We are in the process of trying to analyze that on the staff level here.

The first step would be to broaden aid by category, so much for water projects, so much for rural projects, electrification projects. Work it out by sectors.

Do you believe that would be more or less efficient? The Egyptians have bureaucracies that they are working with, and we have an AID bureaucracy working there. When you have a project on which both of these groups must decide, it takes years. To make minor changes you have to go through the whole grinding bureaucracies of both countries.

If we gained flexibility, would it help the situation or would we end up having serious management problems and wasting taxpayers funds?

Mr. CONAHAN. I think the problems we see in some of the smaller projects in other countries are the same sorts of problems that you will find in the AID program in Egypt. As it presently exists, and whether or not we were to somehow further split the program up, I think I would have to defer a little bit to a greater study of the program in Egypt before answering that question.

I would like to make an observation which I think is pertinent. We are talking primarily about economic support funding. Wherever you have that involved you have to weigh the mix of justification. Certainly we want to get an economic development payoff from those funds in the same manner that we want to get a payoff from development assistance funds. But I don't think that we can expect, quite frankly, that the implementing organization, whichever organization that is, can move as quickly on those massive projects as they should on some of the smaller projects.

I think what we need to have here is much better up-front planning for some of these programs. When we have these massive infusions of aid we need better up-front planning on the part of AID. I think what happens sometimes is those sorts of programs are thrust upon AID, and they have to scramble around a good bit to find out what they are going to do with it.

Perhaps in Egypt we are in that sort of a posture right now.

Senator **Kasten**. Are you suggesting then that rather than going sector by sector, that we try to establish certain thresholds of a project within a sector so that the smaller one would be more flexible, but on larger more complicated ones they would have less flexibility?

Mr. **Conahan**. No, I don't think I am saying that. I think I am trying to defer a comment on Egypt specifically.

Mr. **Bowlin**. I would agree with that. I think even with a sector loan you would still have to couple that with reforms. It is not necessarily as quick disbursing as one might imagine if you are going to exact some degree of reform or some degree of improvement in the structure you are trying to deal with for longtime development purposes.

I think you would have to look more closely at the purpose of the assistance, and I think AID does sometimes find it is dealt a set of cards that it has difficulty playing.

Senator **Kasten**. There are conflicting goals in certain cases. I understand that.

### EGYPTIAN AGRICULTURE

Mr. **Conahan**. May I add to that a bit. If you take a look at the Egyptian agricultural sector which we are supporting specifically and heavily, the disincentives to production are there, and they have been there a long time. They need to be taken care of because the assistance——

Senator **Kasten**. You mean the pricing problem?

Mr. **Conahan**. Yes. They have to be taken care of.

Senator **Kasten**. This is a subject that the subcommittee is interested in, and something we are going to be discussing. We have been discussing it with Peter McPherson and others. I have explored this with the Egyptians, and it may be something we will ask you for your specific help and guidance on. I hope you can help us on it.

You mentioned your work on the Inter-American Foundation. I do not know if it is possible, but we would appreciate it very much if you could furnish us a draft to assist our staff as we develop questions for the IAF hearing. There might be some information you have that we could start to work on almost immediately. I would be pleased if you could help us.

Mr. **Conahan** We will be pleased to do so.

### SUBMITTED QUESTIONS

Senator **Kasten**. There are some additional questions that I have, and there are possibly some questions from other members who have not been able to attend the hearing. So if you could make yourselves available, we will get those questions to you and hopefully you can get them back to the committee in a reasonable length of time.

I want to thank you for your testimony today and say that we look forward to working with you.

Mr. CONAHAN. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

SENATOR KASTEN: Do you have any dollar estimate of outstanding funds possibly owed the United States as a result of your audit findings in the international area?

MR. CONAHAN : No, Senator, we do not. The General Accounting Office cannot compel the agencies, the Congress, or international organizations to accept our recommendations. Also, many of our recommendations towards improving government operations simply cannot be measured in dollars and cents savings. However, when the agencies or the Congress take actions which can lead to savings, we do attempt to identify and record them. For example, in response to one of our recommendations, AID began contract negotiations to obtain blanket workers' compensation coverage between host governments and third parties. Due to considerable contract competition, officials estimate total savings of nearly $40 million or about $8 million per year over the 5-year contract life.

SENATOR KASTEN: Why is there no program to identify marginal activities in U.N. organizations supported through voluntary contributions as there is in those supported through the assessed budget?

MR. CONAHAN : Emphasis has been placed upon identifying marginal activities contained in organizations supported through assessed budgets because the member countries have no choice in paying their share of the budgets. In the case of voluntary contributions the member countries do have a choice in the amount they will pay.

SENATOR KASTEN: You mention your role in monitoring the separation of the Peace Corps from ACTION, was it a good compromise between the Peace Corps and ACTION interests?

MR. CONAHAN : Our discussions and meetings with officials of ACTION, the Peace Corps and the Office of Management and Budget during the course of the separation process and our examination of OMB's determination order led us to conclude that the separation appeared equitable. The mutual concurrence expressed by the agencies and OMB in coming up with the lists of fund balances, personnel, property, records, and contracts involved in the transfer, was a further indication to us that the separation was fair.

SENATOR KASTEN: Would you discuss in more detail the cash flow financing problems, especially as it relates to Egypt, mentioned in your statement?

MR. CONAHAN : Under the so-called "cash flow" method of financing Egypt's Foreign Military Sales (FMS) program, the United States has allowed Egypt to order $3.5 billion of military equipment since 1979, even though only $2.05 billion in credits has been allocated for Egypt. This financing method stretches Egypt's buying power and allows it to place more orders sooner to expedite delivery and minimize cost. However, it appears to us to commit the Congress to large financing programs in future years to ensure that signed contracts are honored.

Here is how this cash flow system works compared to the normal full funding FMS program. When a weapon system is purchased, a Letter of Offer and Acceptance (LOA) is signed by the buyer spelling out the equipment deliveries and the payment schedule. While the total cost of an item may be hundreds of millions of dollars, not all the money will be paid in the first year after the contract is signed. Major systems have a long lead time before delivery, usually several years, and payments will be spread out over this time period. Under normal FMS financing procedures with most countries, the United States requires that the buyer reserve, or set aside, the full cost of the item when the order is placed. This means that if an item costs $100 million, FMS credits of $100 million must be set aside when the LOA is signed. Under the cash flow system authorized for Egypt, however, Egypt sets aside only the amount of money needed to meet the current fiscal year's cash requirements. That same $100 million item, for example, may only require $50 million the first year. So Egypt can set aside only $50 million and the other $50 million is available to place additional orders up to the limit of its cash requirement during that year.

State and Defense Department officials have explained that the Egyptians clearly understand that this system does not represent a commitment by the United States to provide specified sums of money in future years, but we believe it would be difficult for Egypt to interpret it any other way. The State Department has allowed Egypt to obligate funds in future years up to the level of $1.5 billion above current funding. Realistically, the United States would not be likely to reduce funding to Egypt in the foreseeable future anyway, but by authorizing this cash flow system the United States has permitted Egypt to buy much more equipment in the first 3 years of the program and it has made a deeper commitment for future support than would ordinarily be possible through the normal FMS program.

SENATOR KASTEN: Your statement questions the ability of many recipient countries to repay FMS loans. Are you, therefore, supportive of the administration's policy of providing more forgiven FMS loans or grants?

MR. CONAHAN : Generally, we support the Administration's policy that a more flexible FMS financing program, i.e., a program designed to be more in line with the recipients' ability to repay, if necessary, and, in some cases, forgiven credits or grants may be needed. However, forgiven credits and grants would not be appropriate for recipient countries with generally stronger economies. In these cases, a mix of direct credits at rates that vary from as low as 3 percent to Federal Financing Bank (FFB) rates and grants may be more appropriate.

Although we recognize that the recent preference to use the higher FFB-rate, off-budget, guaranteed credits has driven the design of the FMS program, we support the unified budget concept which would place all FMS financing on-budget. If FMS financing was up front for all to see, we believe an FMS financing program would emerge from the budgetary process that would better reflect the ability of recipient countries to pay for their FMS imports.

SENATOR KASTEN: This subcommittee has long viewed the Inspector General of the Agency for International Development as an important tool for that agency.

Your final report on his activity is not yet out, but I wonder if you could briefly give us your findings?

MR. CONAHAN : Our report will be issued soon. GAO found that the IG's staff and travel resources and ability to locate overseas has been insufficient to cover all AID programs and activities. We are recommending that, in order to improve the efficiency and effectiveness of the IG audit function, AID needs to reemphasize and communicate its audit function's role and appoint a qualified and experienced professional as Assistant Inspector General for Audit. Also, the Investigative and Inspection function is in need of better staff resources management.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

SENATOR INOUYE: You have stated that GAO has "seen recent progress at AID toward improved project planning and implementation, but much remains to be done."

What evidence can you cite to substantiate this "recent progress?"

What specific improvements in project planning and implementation has GAO recommended?

How has AID responded to these recommendations?

MR. CONAHAN : In our July 1980 report "AID Slow in Dealing with Project Planning and Implementation Problems," (ID-80-33) we recommended that AID

--reemphasize the need for adequate project implementation planning in clear and explicit guidance to AID personnel;

--increase the training of AID project personnel in project design and implementation processes;

--increase efforts for finding solutions to problems in the implementation for projects; and

--issue adequate project monitoring guidance.

AID generally agreed with these recommendations and there is some evidence of efforts to reduce the time it takes to implement projects and correct other longstanding weaknesses.

For example, in recent statements, the AID Administrator has said that agency needs to devote more attention to project implementation.

In February 1982, the AID Administrator allowed more flexibility in choosing the contracting mode for implementing development assistance projects, giving more freedom to the missions to contract directly with U.S. universities. More recently, AID has undertaken a review of its contracting procedures and processes. In April 1982, the Administrator authorized the solicitation of comments from architects and engineers concerning the use of cost, in addition to technical competence, as a factor in selecting host country contractors for professional and technical services. This also could reduce procurement lead times and speed up the implementation process. This summer, a guidebook for project officers handling host country contracts is to be added to the existing guidance manuals. Also, increased training of project officers is taking place.

SENATOR INOUYE: Your statement notes that AID has completed over 8,745 projects having a total cost of about $15.5 billion.

Is your reference to actual economic development or does the term "projects" include studies and evaluation, etc.?

Of these completed projects, how many have been sustained by recipient governments? Can you provide the committee an estimate of how many projects have withered away after U.S. funding was "completed?"

MR. CONAHAN : The AID annual report from which we drew that data does include "studies and evaluations" under the term projects. Furthermore, development project efforts include feasibility studies and project evaluations. AID records do not readily disclose which completed projects were integrated into another AID project or were continued by the recipient government, by an entity within the country or by another external donor. In past reports, we have expressed concern about host governments maintaining roads, health and educational facilities, water supply and irrigation systems and other infrastructure projects after AID funding has been completed. During our audits we have run across instances of questionable sustainability. For example, information received during work at an AID mission in Asia suggested that the economic life of AID-supported water supply projects was in the neighborhood of only 7 years--compared to the expected life of 20-30 years as projected in AID project papers.

Some host governments may not be as committed to the continued operation and maintenance of existing facilities as they may be to new project development. A recent AID impact evaluation report on small scale-irrigation projects concluded that the long-run cost efficient operation and sustainability of the project was contingent on a number of factors, including adequate user fees for the water provided and the cost of operation and maintenance. We are in the initial stages of a review in which we will look at one or more of such situations.

SENATOR INOUYE: GAO has suggested that AID "should increase recipient government involvement in program design and management for U.S.-sponsored projects."

MR. CONAHAN : We believe the suggestion is very realistic. It is true that certain implementation problems often arise from lack of trained personnel and AID must give increased attention to allocating part of project funds for training of planners, designers, and managers. But the lack of host country front-end involvement in the project design stage increases the risk that the project becomes perceived as an "AID project" rather than a "host-government" project. Unless the host government is actively involved in determining the development constraint needing to be attacked and has the opportunity to determine whether the technology to be applied against the constraint is acceptable by the people, the host governments usually place low priority to the AID-funded project. Without positive involvement from the very beginning the chances for the host government to successfully implement and complete the project diminish greatly. This has been borne out in certain developing countries where government officials distinguish between "AID projects" and "our projects." If the host government is not willing and anxious to help plan and design a project, it probably will not be willing to commit its scarce resources to support the project in the implementation stage.

SENATOR INOUYE: You have noted that, "the administration believes that increased private-sector participation in development will help developing countries generate capital and decrease the need for traditional forms of U.S. assistance." Does GAO share this belief?

MR. CONAHAN : Increased private sector participation should help developing countries generate capital. Private-sector investment though appears to respond to economic growth and the market test of profitability in developing countries. Official development assistance generally is to address basic development needs which should lead to economic conditions more attractive to private investment.

Therefore, depending on a country's basic development needs, private-sector investment could complement rather than supplant official development assistance.

SENATOR INOUYE: I have the impression that AID is using the term "private sector" in a loosely constructed manner and is including many organizations which could be regarded as semi-public in its definition of the private sector. Is this an accurate perception?

MR. CONAHAN : AID's use of the term "private sector" is somewhat different from that of the Congress, but not significantly. In the Foreign Assistance Act of 1961, as Amended, Part I, Chapter 1, Section 102, the Congress states "United States cooperation in development should be carried out to the maximum extent possible through the private sector. . .such as educational institutions, cooperatives, credit unions, free labor unions, and private and voluntary agency." AID defines the private sector as consisting principally of "private business enterprise, non-profit private and voluntary organizations, and universities, because of their largely autonomous nature even when affiliated with state or other governments." It is true that state universities and some private and voluntary agencies could be considered as semi-public entities.

SENATOR INOUYE: Has the GAO detected any trend of increased involvement on the part of U.S. business in development assistance?

MR. CONAHAN : The Committee for Economic Development reported in 1981 that U.S. private investment in developing countries has increased more rapidly over the last 20 years than has official development assistance. Private resources flows now exceed total official development assistance flows because of the increased expansion of private bank lending to developing countries.

Half of the existing foreign investment in developing countries is U.S.-owned. U.S. affiliates in developing countries accounted for over one-third of income earned in 1978-79 from all U.S. foreign direct investment in the form of interest, dividends and reinvested earnings. Income was also received in the form of fees and royalties for technology and management services.

It is still too early to assess the impact that the new initiatives undertaken by the Administration will have on further increasing U.S. business involvement in developing countries.

SENATOR INOUYE: You have suggested that U.S. private and voluntary organizations should "reassess the present direction of increasing PVO financial dependency on AID funding."

What effect has the requirement of 20 percent financial support from non-U.S. government sources had on PVO financial dependency on AID funding?

MR. CONAHAN : AID has identified over 30 PVOs (out of a total of 156 registered) that, as of February 1982, might be affected by the 20 percent requirement. PVOs are attempting to increase private contributions but whether this is due to PVOs wanting to be less dependent on AID, or to constraints on government spending, or to the legislative requirement, is difficult to say. In an effort to encourage even less PVO dependency on AID, GAO has recommended that AID give priority to PVO grant-funded projects in which the PVO matches AID contributions.

SENATOR INOUYE: How does GAO interpret this requirement? (Please respond with reference to the various grant relationships AID has with the PVO community.)

MR. CONAHAN : Beginning in 1985, only those organizations which meet the 20 percent requirement will be eligible for grants specifically designated for PVOs. Assistance potentially affected include some: operational program grants; co-financing grants; matching grants; consortium grants; institutional development grants; institutional support grants; and assistance provided under cooperative agreements.

SENATOR INOUYE: GAO has known for some time that the Administration plans to increase assistance through the Economic Support Fund, which, as you note, is even more difficult to monitor than regular development programs. Why, then, must the Congress wait until next year for a GAO report on the ESF? Is there no way for GAO to have a report, even of an interim nature, ready for our fiscal year 1983 hearings?

MR. CONAHAN : We issued a report in May 1979 about our concerns on the effectiveness of ESF in the Middle East and Southern Africa. In addition to the review I mentioned in my testimony, we are currently monitoring the ESF programs proposed and/or appropriated for the Caribbean Basin, Pakistan and the Philippines. We would be most happy to provide briefings to Congressional committees on the status of this survey work.

SENATOR INOUYE: I wish to commend you for raising the question of "cash flow" financing in your statement. Please provide a detailed review of how this authorization was provided to Egypt. In addition, please provide and discuss any suggestions GAO may have regarding congressional approval of cash flow financing.

MR. CONAHAN : The decision to provide cash flow authorization to Egypt was made in 1979 at the time U.S. and Egypt were considering the types and amounts of military equipment Egypt would buy with the $1.5 billion credit authorization from the peace treaty. While the peace treaty credits were originally seen as a one-time payment, U.S. officials quickly realized that Egypt's needs would require much more financing over a longer period of time. Cash flow financing was seen as a way to allow Egypt to order larger quantities of equipment in the early years of its relationship with the United States. Without cash flow, Egypt could only order equipment with a total price of $1.5 billion. Under cash flow authorization, Egypt placed orders totaling $3.5 billion over the same time period.

The cash flow financing for Egypt was authorized by President Carter after recommendation from the Departments of Defense and State and the National Security Council. Congressional approval was not required. The Congress approved credit allocations for Egypt of $550 million in 1981 and $900 million in 1982; much of these amounts were used to pay obligations on equipment purchased in earlier years.

As we noted earlier in our reply to Senator Kasten, we believe the authorization for Egypt to use this cash flow financing deserves closer congressional scrutiny. While there may be some sound political and economic reasons for the administration's desire to allow Egypt to make long-term purchases and financial commitments, this approach presents a significant departure from the normal FMS financing procedures, and allows Egypt to purchase greater amounts of military hardware. By implying a much stronger commitment of continued U.S. financing in future years than the normal FMS credit program does, such an approach could limit the Congress' prerogatives in reviewing and authorizing credit levels. We believe more information must be provided to the Congress on this issue—involving both Egypt and Israel—for it to carefully weigh the implications of this system. We recommended in our report that the Congress amend the Arms Export Control Act to require advance notification by the executive branch when cash flow financing is to be authorized for selected countries. This would help ensure full disclosure of this significant foreign policy decision.

SENATOR INOUYE: For many years, the Foreign Operations Subcommittee sought to instill a consciousness of costs in the managers and directors of agencies under its jursidiction. For example, we took the World Bank to task for use of the concorde when less costly means of transportation was available.

How successful do you think the Subcommittee was in its endeavors?

MR. CONAHAN : There has been some impact. Although the GAO does not have audit rights in the U.N. system and thus cannot examine directly into its operations, GAO has observed that there does appear to be an increased awareness within the U.N. on the need to control costs. The Joint Inspection Unit has been actively pursuing this theme. It recommended in 1981, for example, that U.N. Organizations analyze the costs increased for translation and typing of documents and select the solution that is cost effective.

SENATOR INOUYE: Has there been an increase in the use of first-class travel in the current administratin, either in AID or the Treasury Department?

MR. CONAHAN : We have not done any recent work addressed specifically to this question. We are aware of AID's general procedures which require specific administrative approval for any first-class travel before payment can be certified. AID personnel report that first-class travel is very rare. Some cases have involved emergency travel or travel with White House personnel.

SENATOR INOUYE: Have any administration officials made use of the Anglo-French concorde?

MR. CONAHAN : We have no knowledge of whether any travel by Concorde has taken place.

SENATOR INOUYE: Is GAO satisfied with appropriateness of U.S. government travel regulations? Do you have any suggestions for improvements?

MR. CONAHAN : While our division has no current audits in this area, our Federal Personnel and Compensation Division staff are participating in the Interagency Travel Management Improvement Group. The General Services Administration, the Office of Personnel Management, the Departments of State and Defense, and the Office of Management and Budget have task forces considering ways to: (1) improve travel services; (2) expand use of discounts; (3) expand use of teleconferincing; (4) simplify travel regulations; (5) streamline reimbursement policies; (6) develop control system models for travel management; (7) tighten travel authorization policies; (8) improve policy coordination; and (9) improve travel budgeting and cost control.

The Group's suggestion for improvements that could affect international travel by U.S. government employees would be those that would deal with possible modifications of the "Fly America Act"; the availability to civilian employees of discounts similar to those available to military personnel;

and simplification of per diem calculations for overseas locations.

SENATOR INOUYE: It has been suggested that necessary operational travel by professionals in AID has been curtailed because of the increased cost of travel by high officials in the agency. Does GAO have any evidence to support this contention?

MR. CONAHAN : We are not aware of any instances of this nature and have not conducted any reviews of such activities.

# AGENCY FOR INTERNATIONAL DEVELOPMENT

## STATEMENT OF HERBERT L. BECKINGTON, INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT

### BILATERAL FOREIGN AID PROGRAM

Senator KASTEN. We will now turn to the Inspector General for the Agency for International Development, General Beckington.

Mr. BECKINGTON. Mr. Chairman, I am pleased to be here today.

I have been asked to testify today on a number of distinct points involving the management and administration of the bilateral foreign aid program conducted by my Agency. I have construed the committee's request to involve a report by me of common or repetitive problems in each area that appear in AID IG reports of audit and investigative oversight of our overseas programs and the Agency's internal systems, and I have tried to make my statement a summary.

Senator KASTEN. My understanding is that you have in fact done that, and I would like you to go ahead.

I would also like to say we are aware of your fine reputation. I know you have worked closely with the majority and minority staff on our committee, as well as a number of others. A number of people have pointed out to me, and possibly to you as well that you have become in a way a model for Government Inspectors General.

I also know Mr. McPherson appreciates your help in his efforts to provide better management and administration of various programs that are under the jurisdiction of this Agency.

So, we are also supportive. I would like to say that we look forward to working with you. I know that this committee has benefited from your work and will continue to benefit from your work and from your analyses.

So, please proceed with your statement.

Mr. BECKINGTON. Thank you, Mr. Chairman.

Before proceeding directly to the subjects specified in the committee's invitation to me, I would like to offer one prefatory comment.

### MANAGEMENT AND ADMINISTRATION OF FOREIGN AID PROGRAM

Viewed from my perspective as the Inspector General of the Agency, I believe the management and administration of the foreign aid program pose severe challenges to managers and administrators at all levels in the AID organization. There are a number of reasons why this is so, but I will mention only two or three that I consider most significant.

The Agency's programs are carried out in what are, by definition, the lesser developed countries and regions of the world. These countries are characterized generally by:

A serious shortage of indigenous management and technical skills including those of public administration and financial management.

A frequent tolerance of public and private sector corruption and inefficiencies.

An economic frailty and often political instability.

A general lack of physical infrastructure supportive of development such as roads, transportation, and communications systems, agricultural capacity.

Finally, AID programs are by design almost always carried out by third parties, contractors, grantees, host countries, thus insuring heavy demands upon the Agency's planning, coordinating, and monitoring systems.

My responses this morning to the specific questions posed by the committee are critical in tenor. For this reason I would note here that over the past 6 to 12 months I have observed from my perspective as the Inspector General a vigorous effort to raise and improve the Agency's administrative and managerial standards and performance. This is occurring both within the Agency and with respect to what is being required of our contractors and grantees.

It is most apparent to me in the attention being paid to IG audit reports. The pressures for action on critical findings and recommendations being brought to bear upon and within the Agency's management structure are being pursued at a level of intensity and attention to detail I had not previously observed.

Let me move directly now to the subjects on which the committee has solicited my views.

## INTERNAL CONTROLS OF THE AGENCY

My reports generally find AID's internal control systems to be adequate, but identify with some frequency a failure to adhere to or apply them. We have reported serious flaws, for example, in the Agency's control of and accountability for Government transportation requests, in adherence to AID's systems for paying for goods and services and to some extent in the efficacy of the systems themselves.

In a recent report, for example, in reviewing some $41 million of paid vouchers we found that $6,500,000 of the total were of questionable validity.

We have reported abuses of the use of the Federal Reserve Letters of Credit system and cash advances to finance AID activities.

In the case of cash advances, we have reported instances of the advances being used for purposes other than those intended, cases where the advances have been banked for varying periods of time in interest-bearing accounts, cases where the advance or advances as far as we could determine had simply lain unused for varying periods of time with no followup by responsible AID officials.

For example, in one representative instance about a year or so ago we reported advances of about $7 million made over a period of 3 years to a regional development bank. At the end of that 3-year period we could find no indication in AID project records that almost $6 million had ever been used for the purposes intended or for any purpose. AID's control systems that should have routinely followed up on the status of these funds had simply failed to function.

## IMPLEMENTATION OF AID PROJECTS AND THE HOST COUNTRY CONTRACTING SYSTEM OF AID

I have chosen to address these two subjects together because they are so closely related in day-to-day Agency operations.

A majority of AID projects and programs overseas are implemented under a system called host country contracting—a system long in use and designated as the preferred method by an AID policy document dating from October 1976.

The committee has asked for my views on the efficacy of this contracting policy—are there practical problems in its application, do we lose money in applying the policy, is this type of foreign aid contracting less efficient than another method?

The short answer to the specific questions the committee has raised is "Yes." Yes, there are practical problems in the day-to-day application of the policy, they frequently result in inefficiencies in the delivery of foreign aid, these inefficiencies can and do cost.

The policy in question requires, with provisions for exceptions, that the procurement of foreign aid-financed goods and services required to execute both loan and grant aid projects will be undertaken by the borrower or grantee rather than by AID.

The theory supporting this policy is first, that the ultimate responsibility for all development projects rests with the countries whose projects they are.

Second, the process of implementation itself is a development tool or method teaching technical, institutional, and administrative skills.

Finally, AID itself is not primarily a procurement agency and must conserve its staff resources for its primary functions of planning, financing, and monitoring. (An integral requirement in the policy document itself calls for appropriate training programs to strengthen and assist host country governments in their implementation of the policy. I believe more can be done in the vital area of training.)

In practice, then, this policy results in a process in which AID lends or grants the money. But, the executing instrument, contract or grant, is between the host government and the contractor or grantee.

As Inspector General, my reviews of the practical application of this policy have not led me to question the theory supporting it. My reports have, however, been critical of a number of common problems we encounter in reviewing the widespread use of the policy.

In summary, my reviews have shown delayed projects, increased costs flowing from these delays, frequent poor logistical support by host governments, a general lack of audits of contract and grant costs by the host governments, procurement inefficiencies in the acquisition of both goods and services, and administrative difficulties on the part of host governments in executing bid procedures, preparing contracts, and administering contracts.

I have found, too, a tendency by AID to apply less oversight to these borrower/grantee-controlled projects, I believe, because AID itself is not a party to the instrument. Thus, implementation problems can occur and develop to a project-threatening degree in some instances before AID field offices and the Washington bureaus become sufficiently aware of them.

In part as a result of the IG reviews of the policy, the Agency has taken a number of corrective steps. The policy document itself has been modified to permit greater discretion in AID field missions' use of the host country contracting method.

The handbook governing AID's administration of the policy is being revised and clarified; these are positive actions being taken by the Agency—nevertheless, the underlying conditions in many of the less-developed countries in which AID operates continue to pose high risks and the same types of practical difficulties I have noted.

We find in our reviews continuing implementation problems arising often, in my judgment, from some of the practical weaknesses of the host country implementation capacity. A late 1980 report, for example, on an agricultural project in a Latin American country found substantial delays in implementation flowing directly from the host country's apparent inability to provide its agreed upon share of both funding and qualified personnel.

At the time of my review, the project was 2 years behind plan, and we estimated that excess costs attributable to the delay would reach about $2 million.

## OVERVIEW OF AID PROGRAMS

Last spring in an overview report of AID programs in a group of West African countries, we found project after project undergoing serious delays and shortfalls in reaching planned objectives. Host countries were experiencing grave difficulties in executing many of the projects.

Lack of host country funds, trained personnel, delayed procurements, overoptimistic assessments of host country capabilities were contributing conditions.

Additionally, we were forced to question the viability of some of the projects once U.S. foreign aid support ended.

In Egypt, a major construction project, one of the few being supported by AID in recent years, experienced what could have been seriously faulty quality control problems. Extensive testing eventually removed these concerns.

As a host country project, however, we found that AID oversight of the project had not been fully aware of, and followed up closely, on the progress and quality of the construction. The AID investment of many millions of dollars could have been placed at serious risk.

## OPERATING EXPENSE FUNDS OF OVERSEAS MISSIONS

We maintain a continuing oversight of this facet of AID's operating expense budget primarily because it has historically proven to be a sensitive area of AID expenditures and one prone to difficulties.

In spite of a considerable amount of time and attention being devoted to this general subject over the years, we have found and continue to find deficiencies in such areas as inventory control and accountability for nonexpendable property items, motor pool operations and maintenance, local procurement of goods and services, management and maintenance of leased property, and control over utility and telephone usage and costs.

Dollar amounts associated with these types of discrepancies are frequently relatively small by Federal Government standards—a few hundred or thousands of dollars. Cumulatively over a period of time they can add up to a noticeable drain on a tight budget.

I will within the next few weeks be issuing a report which highlights the repetitive types of discrepancies we find as an aid to the Agency's continuing effort to eliminate them or sharply reduce their historic frequency.

## THE PUBLIC LAW 480 TITLE II PROGRAM

The committee has posed a number of specific questions with respect to the conduct of this program. What problems do we encounter and report? How well are the PVO's that run these programs doing their jobs?

The AID IG looks at the delivery end of these programs. The Public Law 480 Title II program is primarily carried out by three or four of the larger private voluntary organizations. It is a difficult program to administer, and IG reports repetitively identify common problems.

These may be categorized as inadequate program planning, poor program implementation, and inadequate monitoring, control and reporting by both AID and PVO organizations. Accountability over commodities and funds is frequently flawed, diversion, spoilage, and infestation occur and are not corrected early on, intended beneficiary groups are not reached fully or effectively, loss claims are overlooked or disregarded.

In some instances the problems are remarkably persistent and long-standing. In one African country six audits in 6 years reported essentially the same serious problems. Three of these were conducted by the AID IG, one by the GAO, two by the responsible PVO's own audit unit.

In another small African country we identified losses of commodities valued at about $700,000 in one 18-month period. No effort to follow up on these losses had been initiated by either AID or the PVO.

In a Latin American country half of 27 distribution centers checked did not know how to prepare meals with the food they received through the program because the relatively simple training involved had not been given.

A program in India was found to be regularly distributing food to groups of ineligible recipients.

A very recent review of a large food-for-work program in a South Asia country identified $5,000,000 in commodity losses and diversions over a 2-year period attributable to planning errors, inadequate controls and outright corruption.

I noted earlier that these programs are conducted under very difficult conditions in many if not most of the countries in which they are maintained. We must recognize, I believe, that it is hard for one of these programs to come through a review as a near model of effectiveness and efficiency.

I believe, however, that we, both AID and the PVO's concerned, after years of experience, know the common problems and pitfalls well and can be more effective in our joint efforts to guard against them to the benefit of the intended recipients of this form of aid.

## PUBLICITY FOR U.S. AID PROGRAMS

I have been asked if the Agency is ensuring that the citizens of recipient countries know that our AID projects are what they are—American-financed aid to them and their countries. Project agreements normally provide adequately for this. Appropriate signs and markings are usually called for.

My auditors do find with some frequency a failure on the part of host countries and AID country missions to be alert to this requirement. Local citizens are thus not aware of, or confused over the U.S. source of the support and funding for a particular program or project. These are stubborn problems and corrective action can be slow and difficult to carry out.

## PVO PERFORMANCE AND ACCOUNTABILITY

The committee has noted an "increased emphasis on using private and voluntary organizations" by the Agency. You have asked what my reviews disclose vis-a-vis performance and accountability, especially accountability of funds.

Over the past 2-plus years we have reviewed more than two dozen PVO-directed operations of varying types funded in whole or significant part by foreign aid appropriations. On the basis of this documented record, I must report that AID-funded PVO projects frequently encounter serious performance problems. These problems have varying causes, and when present tend to have predictable program impact.

In summary, we find over optimistic and faulty planning assumptions, PVO difficulties in fielding and keeping on site qualified project teams, difficulties in host country/PVO coordination or support, lack of sufficiently close, continuing project oversight by both PVO's and AID and erroneous funding estimates.

Finally, we do find problems of poor financial accountability for AID-provided funds and a persistent weakness in the ability of AID's normal administrative processes to discern and deal with these accountability problems at an early point.

Predictably, these conditions when they are present to any degree in a given situation, lead to programs that are delayed beyond plan by months or even years; to shortfalls in meeting planned goals or objectives, to midcourse changes that pose difficult options of reduced objectives, cancellations or more funds, time and people, to expenditures that are questionable or disallowable and, in extreme cases, to accountability problems so severe that auditing is accomplished with great difficulty and even then is incomplete.

I should note that the PVO audit reviews which comprise the record of the past 2 to 3 years are slanted in the direction of those enterprises with problems. We have surveyed during that same period a smaller number of PVO-directed programs that the survey established were on plan, on time, on budget.

We dropped a full audit of these simply because like everyone else the Inspector General, too, must focus resources where the problems appear to be.

From my perspective as the Inspector General, I believe the types of problems I have summarized above are sufficiently present in the total AID/PVO relationship so as to warrant special management attention by each of us, AID and the PVO, to correct or remove. I know that special efforts to this end are underway now within AID and the PVO community.

## RELATIONS OF AUDIT FINDINGS TO PERFORMANCE OF INDIVIDUALS AND THE DISTRIBUTION WITHIN AID OF AUDIT FINDINGS

The Agency has not in the past made any specific point of relating audit findings to the individual personnel performance system. This has changed and just changed, Mr. Chairman.

About a year ago a GAO report entitled, "Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings" recommended such a direct link between the timeliness and quality of audit resolution and written performance standards and as a factor in bonus and merit pay determinations.

Senator **Kasten**. That, in our view, is a very significant move.

I want to congratulate you and Mr. McPherson and others for that step in this direction. I know it is going to create some questions, and there might be some problems. Clearly it is a step in the right direction. I congratulate you and through you Mr. McPherson. I will convey my congratulations to him as well, but you might do so on my behalf.

Mr. **Beckington**. Thank you, Mr. Chairman. I will.

I think quite honestly the Administrator is the person for you to direct your commendatory comments to in this case. He has pushed it very firmly.

The Agency has acted on this GAO recommendation by instructing AID bureaus to include this performance area as a written critical element in performance appraisal plans of appropriate officers of the Agency.

On the dissemination of common problems turned up by the audit process, I must report that we do not now have an adequate system in place. Individual reports receive, I believe, very adequate distribution. We have on a few occasions distributed a report very widely throughout the Agency in Washington and overseas, and on an ad hoc basis on two or three occasions in recent years compiled a review of repetitive problems in a program such as Public Law 480 title II programs, for example, in an effort to do just that, give greater distribution and greater visibility to those problems within the Agency. We do not have now a regular system for this, and the GAO review of the IG operation in the Agency, which has not yet been published, did identify the lack of such a system as a weakness. It is a valid criticism in my judgment, and it has caught my full attention.

That completes my statement, sir.

Senator KASTEN. General, thank you.

You suggested that pressures for action on critical findings and recommendations being brought to bear upon and within the Agency's management structure are being pursued with a new level of intensity and attention to detail.

I was interested that the previous witness, Mr. Conahan, did not seem to have that same sense of participation. It seems to me it could be one of two or three different things. Your part of the Agency is closer to them. He is on the outside. Maybe they are paying more attention to you.

It could also be they are paying equal attention, and he was being a little unfair, or it could be that you are overstating the case a bit.

It struck me there was a significant difference in the tone of the response from your point of view and his. I wonder if you can clarify that for me.

Mr. BECKINGTON. Mr. Chairman, in fact, in my judgment there is a new focus in the Agency on IG recommendations, on audit findings, on recommendations, following those findings. I think we can take sound credit for it within the Agency. The focus of the Administrator and his senior associates in the last year or so on this type of thing, as I testified, has been very marked and very persistent.

In all fairness, however, I must also say that we, along with the rest of the Federal Government, have been spurred and prodded in this direction in part by the formation and the activities of the President's Council on Effectiveness and Efficiency which I am sure you know of, but you may not have had an opportunity to be particularly aware of its operations.

It is chaired by the Deputy Director of OMB. It is made up principally of 14 or 15 statutory Inspectors General in the executive branch. It has made a very special effort on a continuing basis, to include imposing certain very specific requirements on each of us, to do exactly what we are doing.

I now have, along with other Inspectors General, quite a rigid reporting system in which I, in fact, have to report on a 6-month basis the status of open audit recommendations. Today, as a matter of fact, I forwarded that report for the period ending March 31, just 3 weeks ago.

This kind of attention and focus has helped me as Inspector General of the Agency and has helped the Administrator, I think, in bringing more and more attention across all levels, throughout all levels of the Agency, to the significance of this effort.

### AUDIT RECOMMENDATIONS REPORT

Senator KASTEN. I wonder if it might be possible for you to provide us with a copy of that interim report, as well, to get a sense that we are all working toward the same goal; that is to say, that the people who are receiving this aid, people at the very bottom level, get the largest amount of benefit for the dollars being spent.

We want to work with you. If you can provide us with that information it might be helpful to all of us.

Mr. BECKINGTON. I will do so.

# SEMIANNUAL REPORT ON AUDIT RECOMMENDATIONS

## As of March 31, 1982

Office of the Inspector General
Agency for International Development
U.S. International Development Cooperation Agency

### INTRODUCTION

This is the third semiannual report to the Administrator on the status of audit recommendations issued by the Agency's Inspector General (IG). It is mandated by Office of Management and Budget (OMB) Circular A-73, "Audit of Federal Operations and Programs." Section 8 b (6) of that Circular requires that the semiannual report show (i) the status of all IG audit reports over six months old, (ii) the number of reports or findings resolved, (iii) demands for payment made, and (iv) collections or offsets made.

The report, which covers the period from October 1, 1981 through March 31,1982, also provides the status of audit recommendations made to the Agency by the General Accounting Office which had been open for more than six months as of March 31, 1982.

### OVERVIEW OF AGENCY PERFORMANCE

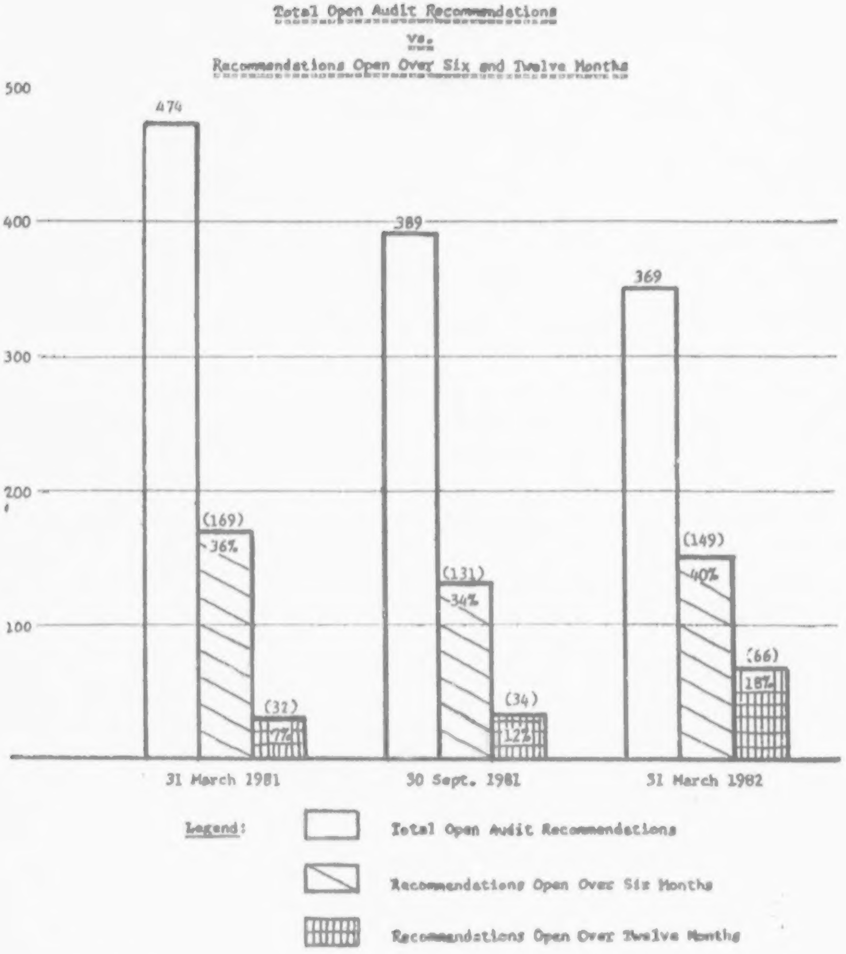
I am pleased to report that the total number of open IG audit recommendations continued to decrease during this semiannual reporting period.

| Total Recommendations Open as of: | |
|---|---|
| 31 March 1981 | 474 |
| 30 September 1981 | 389 |
| 31 March 1982 | 369 |

However, despite the overall decrease in the number of open audit recommendatons, there has been a resurgence of recommendations open over six months.

| Recommendations Open in Excess of Six Months as of: | |
|---|---|
| 31 March 1981 | 169 |
| 30 September 1981 | 131 |
| 31 March 1982 | 149 |

These statistics reflect marked changes over the past year in the composition of the Agency's open recommendation inventory. The chart on the following page shows that recommendations open in excess of six months now represent 40% of the inventory (vs. 36% as of 31 March 1981); and recommendations open in excess of 12 months now represent 18% of the inventory (vs. 7% as of 31 March 1981). Thus, while two out of five audit recommendations were more than six months old as of 31 March 1982, almost two in five of those recommendations had been outstanding for over one year.



Total Open Audit Recommendations vs. Recommendations Open Over Six and Twelve Months

AGENCY COMPLIANCE WITH OMB CIRCULAR A-73

The fundamental requirement of OMB Circular A-73 is that audit recommendations be resolved within six months of issuance. (In this context, "resolution" and "closure" are not synonymous terms: audit recommendations are resolved when Agency management and the IG's Office have reached agreement on firm plans of action to correct the audit deficiencies; but audit recommendations are generally not closed until the deficiencies have actually been corrected.) While the universe of IG recommendations open over six months increased by [illegible] between 30 September 1981 and 31 March 1982, violations of this A-73 requirement remained at almost exactly the same level.

Status of Recommendations Open Over Six Months as of:

| | Total | Unresolved, in Violation of Circular A-73 | Resolved |
|---|---|---|---|
| 30 September 1981 | 131 | 77 | 54 |
| 31 March 1982 | 149 | 76 | 73 |

Of the 76 recommendations that were unresolved for more than six months as of 31 March 1982, nine had been reopened as the result of IG follow-up reviews of closed recommendations (see below).

## AGENCY COMPLIANCE WITH PUBLIC LAW 96-304 (ENACTED 8 JULY 1980)

The Supplementary Budget and Rescission Act of 1980 required that (i) all audit recommendations open as of the date of its passage be resolved by 30 September 1981, and (ii) all subsequent monetary recommendations be resolved within six months of issuance. As is detailed below, the Agency's inventory of audit recommendations in violation of this statute has increased by 24% over the past six months.

Recommendations Unresolved in Violation of P.L. 96-304 as of:

| | Total | Issued Prior to 8 July 1980 | Monetary |
|---|---|---|---|
| 30 September 1981 | 25 | 11 | 14 |
| 31 March 1982 | 31 | 14 | 17 |

Again, nine of these violations have resulted from the reopening of recommendations, based on IG reviews of closed recommendations.

## FOLLOW-UP ON CLOSED RECOMMENDATIONS

OMB Circular A-73 mandates that each Agency regularly evaluate its performance in complying with the scope and intent of audit recommendations. Consequently, follow up on closed audit recommendations has been integrated into the work of each Regional Inspector General for Audit (RIG/A), as a means of evaluating Agency compliance with audit recommendations. During the past six months, three RIG/A offices conducted such follow-up reviews; and, of the 23 recommendations reviewed, 44% were reopened.

| | No. of Closed Recs. Reviewed | No. of Recs. Reopened |
|---|---|---|
| Cairo | 3 | 1 |
| Nairobi | 9 | 6 |
| Washington | 11 | 3 |
| Total | 23 | 10* |

## REFERRALS TO THE DEPUTY ADMINISTRATOR

OMB Circular A-73 also requires that the head of each agency or his designee arbitrate any disagreements between the audit and management functions on the timeliness and/or the nature of the Agency's responses to audit recommendations. Five such cases (involving 40 recommendations) were referred to the Deputy Administrator for resolution during the past six months. As of 31 March 1982, only one of the 40 recommendations remained unresolved.

| Reason for Referral | No. of Audits | No. of Recs. | Status as of 31 March 1981 | | |
|---|---|---|---|---|---|
| | | | Open | | |
| | | | Resolved | Unresolved | Closed |
| Action office failed to make written determination within six months | 3 | 37 | 22 | 1 | 14 |
| Disagreement as to proposed resolution | 1 | 2 | 1 | - | 1 |
| Lack of progress in resolving issues | 1 | 1 | - | - | 1 |
| Total | 5 | 40 | 23 | 1 | 16 |

## ACTIONS ON MONETARY RECOMMENDATIONS

Appendix D details Agency actions on monetary audit findings during this semiannual reporting period. To summarize:

- Agency management reached determinations on $9,206,868 in recoveries recommended by IG audit reports. Of this total, recommended recoveries of $7,848,937 were sustained and recommended recoveries of $1,357,931 were not sustained.

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*A total of 13 recommendations were reopened during this period, but only 10 of those actions resulted from formal IG follow-up reviews. One of these 10 recommendations had been closed again as of 31 March 1982.

- A total of $2,195,252 in recoveries were actually made as the result of IG audit work.
- Agency management sustained $11,149,804 in deobligations and returns/reductions of advances that were recommended by IG auditors. Deobligations and returns of advances totalling $6,692,013 were actually accomplished.

STATUS OF OPEN GAO RECOMMENDATIONS

As of March 31, 1982, there were only seven GAO recommendations on which the Agency had promised corrective actions, but had not completed those actions within six months of recommendation issuance. As is detailed in Appendix C, substantial progress has been made on these recommendations, and I fully expect to be able to close all seven of them during the third quarter of FY 82.

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/WASHINGTON | | | | | | | |
| 0-000-80-67 (06/06/80) | 9 a/ | USAID/ Mali | P | Fund the Language Training Center from sources other than the Mali Livestock project. | X | | On 1/8/82 the AA advised that by 2/1/82 funding for the Center would be provided by sources other than the Mali Livestock Project. No further information had been received by the IG as of 3/31/82. |
| " | 12 a/ | " | M | Cease additional funding for the Revolving Credit Fund until the host country implementing agency establishes an adequate accounting system and provides trained staff to implement it. | | X | This recommendation was reopened on 2/17/82, based on an IG follow-up review of closed recommendations. Despite earlier reports of corrective action, auditors found no evidence that the fund was being correctly managed. Further, the Mission acknowledged that there were serious questions about the effectiveness of the accounting system. |

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* P - Procedural; M - Monetary.

a/ Section 305 of P.L. 96-304 (7/8/80) required these recommendations to be resolved not later than Sept. 30, 1981.

b/ According to S.305 of P.L. 96-304, these recommendations (which involve questioned costs and were issued after 7/8/80) should have been resolved within six months of report issuance.

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-80-67 (Cont'd) | 13 a/ | " | P | Define and implement Mission financial monitoring responsibilities. | | X | This recommendation was also reopened on 2/17/82. During their follow-up review, auditors found that guidance specifying Mission financial monitoring responsibilities had still not been issued, even though the Mission had made a commitment to do so some 14 months earlier. |
| " | 14 a/ | " | M | Evaluate the project's need for $100,000 in commodities and equipment which is not being fully utilized. | | X | This recommendation was also reopened on 2/17/82. Auditors found that (1) the end-use survey scheduled for July 1980 had never been conducted; and (ii) the Mission still does not have written policies/procedures relative to disposal and/or transfer of non-utilized commodities. |
| 0-000-80-89 (07/29/80) | 3 b/ | USAID/ Liberia | M | Reduce the level of a contractor's cash advance until a cash flow statement is submitted justifying a larger amount. | | X | The project was terminated on 8/31/81, at which time the Mission estimated that the outstanding contractor claims were in excess of the outstanding advance. The recommendation is being held open pending final contract negotiation/settlement. As of 3/10/82, |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-000-80-89 (Cont'd) |  |  |  |  |  |  | the contractor had still not submitted his final vouchers, but the AA expected this to occur by the end of March 1982. |
| 0-000-81-22 (12/15/80) | 1 b/ | USAID/ Senegal | M | Determine the full amount of improper local currency payments under the OMVS Agronomic Research Project; and recover the money from the host government implementing agencies. |  | X | USAID/Senegal issued four Bills for Collection totalling the equivalent of about $100,000 in May of 1982. However, despite persistent follow-up by the Mission, the host government has made no payments against these Bills. As of 3/31/82, AA/Africa and the Mission were actively reviewing alternative means to accomplish the recommended recovery. |
| 0-000-81-44 (02/13/81) | 2 b/ | USAID/ Upper Volta | M | Obtain (i) a full accounting of monies released to credit revolving funds; (ii) refunds of misappropriated amounts; and (iii) redesign of the funds to insure self-financing capability. |  | X | On March 18, USAID/Upper Volta indicated that negotiations leading to a repayment agreement continue. In the meantime, additional funds for Phase II of the project remain frozen. |
| - | 3 b/ | - | M | Obtain a full accounting for local currency proceeds from | X |  | A repayment agreement was executed on 10/30/81. The |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-000-81-44 (Cont'd) | 3 b/ |  |  | Title II sales from 1971-75, and the restoration of any amounts not properly used. |  |  | actual transfer of the first installment, however, was not expected until mid-March. The IG is keeping the recommendation open pending notification that this transfer has occurred. |
| " | 5 b/ | " | M | Review project accounts and obtain interest refunds as appropriate. |  | X | USAID/Upper Volta has identified the amounts of interest due, interest collected, and interest to be collected for all but 2 projects. Action on these 2 projects awaits the Mission's receipt of the corresponding bank statements. |
| 0-635-81-61 (03/27/81) | 6 | AA/AFR | P | Review oversight/monitoring responsibilities and project performance; and assign greater responsibilities to USAIDs closest to area of regional project activities. | X |  | On 3/8/82, the AA reported that (i) day-to-day implementation oversight would be decentralized from the regional level to the national level; and (ii) the respective AID Missions would assume greater responsibilities for monitoring certain implementation functions. Specific details on how this is to be accomplished still need to be worked out, however. |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-669-81-96 (06/26/81) | 8 | USAID/ Liberia | P | Submit a certified listing of all Mission-held non-expendable property to M/SER/MO, as part of an effort to improve accountability for and utilization of this property. |  | X | On 3/29/82, the Africa Bureau reported that they had received the required listing from the Mission. However it was determined that the listing was deficient, and the Bureau has referred the matter to M/SER/MO for follow-up. |
| 0-688-81-139 (09/24/81) | 1 | USAID/ Mali | P | Before resuming disbursements under the Action Ble project, revise the project agreement to reflect material changes in the inputs, targets, and goals of the project. |  | X | As of 3/31/82, the project suspension had not been lifted, and negotiations were still underway with the host government implementing agency in an attempt to define the project's future.** |
| " | 2 b/ | " | M | Require the host government implementing agency to (i) obtain payment for certain project-financed commodities |  | X | USAID/Mali reported on 3/17/82 that it has drafted an implementation letter to document discussions with |

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**An in-depth evaluation of this project is currently being conducted, in order that the AA can make a final determination on whether the project should be terminated.

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status: Resolved | Status: Unres. | Comment |
|---|---|---|---|---|---|---|---|
| 0-688-81-139 (Cont'd) | | | | in the possession of that agency's employees and contractors; or (ii) recover the commodities. | | | the implementating agency on how these repayments will be effected.** |
| " | 3 b/ | " | M | Determine the correct balance of the project's revolving credit fund. | | X | As of 3/17/82, USAID/Mali expected to reach agreement with the host country implementing agency on this matter during the March/April 1982 time frame.** |
| " | 4 | " | P | Require that the host government (i) establish a bank account from which to manage the above fund, and (ii) deposit the appropriate amount of project monies therein. | | X | As of 3/17/82, USAID/Mali had agreed to pursue this issue, but was doubtful that the host government implementing agency would actually reinstate the funds necessary to restore the proper balance in the revolving credit fund.** |
| " | 5 | " | P | Implement improved USAID/Mali project accounting systems/procedures. | | X | USAID/Mali's 2/24/82 response to this recommendation dealt only with the Action Ble project and indicated that appropriate project implementation letters will be issued if and when the project suspension is lifted.** |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-688-81-139 (Cont'd) | 6 | " | P | Issue a project implementation letter to require improved accounting procedures under the Action Ble project. |  | X | Same as above.** |
|  | 7 | " | P | Specify line items within the project's operating expense budget, in order to allow for adequate cost monitoring. |  | X | The Mission has agreed to work with the host government to implement this recommendation--if and when the project suspension is lifted.** |
| " | 8 | " | P | Establish final procedures for the reimbursement of project expenses. |  | X | Same as above.** |
| " | 9 | " | P | Establish an inventory control system for the project including training of local personnel, as appropriate. | X |  | On 3/17/82, USAID/Mali reported that they had engaged a contractor to establish an inventory control system for all project commodities. The contractor was to begin work on 3/22/82.** |
| " | 10 | " | P | Conduct a physical inventory of project commodities and require regular inventory status reports. | X |  | On 3/17/82, USAID/Mali reported that the host government was conducting the inventory, and it was expected to be finalized in March 1982.** |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-688-81-139 (Cont'd) | 11 | " | P | Provide project personnel with detailed written guidance (in French) on AID procurement requirements and processes. |  | X | On 3/17/82, USAID/Mali endorsed this recommendation, but asked for AID/W on other assistance in implementing it. As of 3/31/82, the Mission request was under review by the Africa Bureau.** |
| " | 12 | " | P | Develop a detailed project procurement plan, in conjunction with the host government implementing agency. |  | X | The Mission has agreed to implement this recommendation--if and when the project suspension is lifted.** |
|  | 15 | " | P | Determine the condition of all undistributed irrigation pumps and rectify any deficiencies in them. |  | X | On 2/24/82, USAID/Mali responded that the actual status of the pumps was difficult to assess, as the pumps are crated, cumbersome, and must be assembled.** |
| " | 17 | " | P | Furnish generators to provide power to project HQ office. | X |  | USAID/Mali's 2/24/82 response was that electricity is not needed at the project HQ office. Recommendation closing awaits utilization or disposition of two project generators that are being kept in storage.** |

BUREAU/OFFICE: Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-688-81-139 (Cont'd) | 22 | " | P | Develop a procurement policy statement that delineates the procurement responsibilities of the various offices within USAID/Mali. |  | X | On 3/17/82, USAID/Mali requested AID/W TDY assistance in order to implement this recommendation.** |
| RIG/A/NAIROBI |  |  |  |  |  |  |  |
| 3-621-81-12 (06/30/81) | 4 | USAID/ Kenya | P | Determine whether the 5 onboard technicians can perform the necessary hydrologist functions; and, if so, eliminate the vacant hydrologist position. | X |  | An evaluation of the project was conducted during March 1982. A decision on the vacant position will be made on the basis of that evaluation's conclusions. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/MANILA | | | | | | | |
| 2-497-80-17 (07/29/80) | 10 | USAID/ Indonesia | M | Charge host government funds for logistical support provided by USAID/Indonesia to the host country contractor. | X | | In Feb. 1982, the host government reimbursed AID for the logistical support provided to the contractor. However, recommendation closure awaits resolution of a small payment shortfall caused by exchange rate differences. |
| 2-497-81-11 (04/27/81) | 5 b/ | USAID/ Indonesia | M | Require the host country implementing agency to conduct a physical inventory of contraceptive stocks and reconcile same with project records. | X | | The inventory was planned to be completed in late March. Recommendation closing awaits USAID/ Indonesia's receipt and approval of the inventory report. |
| " | 7 | " | P | Request that the host government implementing agency determine reasons for, and develop a plan of action to counteract, low contraceptive user rates in West Java. | X | | In February, USAID/ Indonesia reported that (i) the host government implementing agency had developed a multi-faceted, long term strategy to correct the problem; and (ii) the Mission intended to issue a project implementation letter to provide |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 2-497-81-11 (Cont'd) |  |  |  |  |  |  | financial support for this effort. Recommendation closing awaits the IG's receiving notification that the project implementation letter has been issued. |
| 1-492-81-12 (04/30/81) | 2 | USAID/ Philippines | P | Include a technical assistance component in the project to provide for review of procedural disincentives to local property tax revenue generation. | X |  | As of 3/31/82, agreement had been reached on the need for this technical assistance, and indications of interest from prospective suppliers had been received. Recommendation closing awaits the execution of the technical assistance contract. |
| " | 3 | " | P | Require a series of benchmark studies to determine project progress in all localities before proceeding with Phase II. | X |  | In March 1982, the host government implementing agency was scheduled to complete its study of local participation in the mapping project, with an eye to eliminating unqualified municipalities. Recommendation closing awaits the execution of the Phase II reimbursement agreements. |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 2-492-81-12 (Con't) | 4 | USAID/ Philippines | P | Establish clear criteria as to what types of commodities are allowable for procurement under the project. | X | | A model agreement to be used between the Ministry of Finance and municipalities for cost reimbursement purposes has been drafted. However, the IG has recommended that USAID/ Philippines sharpen the focus of this document as regards commodity eligibility. |
| | 5 | | P | Reduce the number of participanting local authorities and obtain their clear commitment to adhere to project implementation criteria. | X | | The host country implementing agency has agreed to use more rigorous selection criteria in Phase II, and has developed a series of checks and balances that will regulate performance during Phase II. Again, recommendation closing awaits actual execution of the reimbursement agreements. |
| " | 9 | " | P | Ensure that (i) tax exemption will be available for AID-financed procurement under the project; or (ii) the host government agrees to pay the taxes. | X | | The host country implementing agency has indicated that it will provide funds to pay taxes or duties levied on certain commodities procured under the project. As of Feb. 1982, USAID/Philippines intended |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 2-492-81-12 (Cont'd) | | | | | | | to respond in a project implementation letter that final approval of Phase II would be conditional on adequate host government funding of all taxes/duties levied on project commodities. |
| " | 11 | " | P | Redesign the project to provide for the employment of more technically qualified personnel. | X | | As is the case with Rec. No. 2, agreement has been reached to provide increased technical assistance, and several requests for proposal have been made. Recommendation closing awaits the execution of the contracts. |
| " | 12 b/ | USAID/ Philippines | M | Redesign the project to include a comprehensive reassessment of the project's financial requirements. | X | | The host country undertook this financial analysis in preparation for Phase II of the project. USAID/ Philippines currently estimates that the revised cost data may result in the deobligation of $1.5 to $2 million in project funds. Recommendation closing awaits a final determination when the cost reimbursement agreements are signed. |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
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| | | | | | Resolved | Unres. | |
| 2-497-81-13 (05/18/81) | 5 | USAID/ Indonesia | P | Require the host government to establish an inventory management system for AID-financed spare parts. | X | | On 3/23/82 the AA reported that an inventory management system has been established; an initial inventory has been completed; and a cost accounting system for charging spare parts against specific equipment has been initiated. Recommendation closing awaits the Mission's notification that the cost accounting system for spare parts is fully operational. |
| " | 6 b/ | " | M | Require that the host government ship or file claims for equipment that cannot be located at the project site. | X | | As of 3/23/82, the Mission had accounted for two of the missing 19 items, and was waiting to see if the other 17 were located during the recently completed inventory. If not, the Mission will require the host government to file claims for or reorder the items. |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 2-497-81-14 (05/28/81) | 1 b/ | USAID/ Indonesia | M | Obtain an accounting of funds advanced, or obtain a refund. | X | | A review of vouchers submitted by a local government institution under an AID funded agricultural education project revealed 2 unjustified advances totaling over $150,000. USAID/Indonesia reports that documentation supporting the expenditure of funds advanced has now been gathered and is being forwarded to AID/Washington. |
| " | 3 b/ | " | M | Document data on collectors' salaries and clerical costs. | X | | Similarly, salary costs incurred under an AID funded base line study in the agricultural sector for consultants, data collectors and clerical personnel of a local government institution were not fully supported. The Mission reports that supporting documentation for the $12,272 in questioned costs has now been received and will be sent to AID/Washington. |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 2-497-81-14 (Cont'd) | 5 b/ | USAID/ Indonesia | M | Document unallowable contractor support costs and recover amounts spent; or obtain appropriate policy exemptions, as applicable. |  | X | About $6,000 for the purchase of unallowable "luxury items" was charged to AID by expatriate contractors under an irrigation and land development project. In response to a Mission request for guidance, SER/CM advised the Mission to conduct a cost analysis to determine whether such purchases should be authorized. As of 3/31/82, the Mission had not made this cost analysis; but stated that the practice will not be authorized in other contracts. |
| " | 7 b/ | " | M | Amend a service contract to provide for refund of an advance from supplier |  | X | Commodities purchased under an AID-financed agricultural planning and administration project included computer hardware and software, as well as provision for maintenance service from a local agent of the U.S. manufacturer. Auditors questioned an advance of $105,162 for 3-year maintenance and service long before the arrival of the equipment and the need for |

BUREAU/OFFICE: Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
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|  |  |  |  |  | Resolved | Unres. |  |
| 2-497-81-14 (Cont'd) |  |  |  |  |  |  | this service. On 3/23/82, the AA advised that "there is no formal record of a determination having been made by officials who approved the host country contract that a compensating financial benefit would accrue to AID as a result of making the advance payment to the contractor." |
| 5-386-81-15 (08/17/81) | 1 b/ | USAID/ India | M | Verify the utilization of AID-financed materials under a malaria control program; and recover the value of materials not used within a reasonable period of time or as intended. | X |  | In its February 1982 response to the audit report, USAID/India reported progress in resolving these problems, and stated that full utilization of commodities and reconciliation of distribution records should occur early in 1982. |
| " | 2 | " | P | Request and verify the preparation of accurate commodity distribution records by the host government. | X |  |  |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Food For Peace and Voluntary Assistance

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/WASHINGTON |  |  |  |  |  |  |  |
| 0-000-80-88 (07/29/80) | 3 | ASHA | P | Establish formalized requirements and procedures for management and administration of ASHA grants. |  | X | On 6/22/81, the AA agreed to develop AID Handbook guidance on this subject. Draft material proposed for Handbook publication was submitted to the IG on 3/8/82. However, the IG found the draft to be unresponsive to the recommendation in that it merely described the program instead of providing rules and regulations for its operation. |
| 0-934-81-11 (04/30/81) | 2 | AA/FVA | P | Require the grantee to establish a system for subgrantee reporting on the nature and amounts of their actual disbursements. | X |  | The grant has been extended to permit the grantee's further institutional development. Monitoring of subgrantees is one of the areas to be addressed during the grant extension period. FVA/PVC expects to provide an evaluation of the grantee's progress in this area by June 1982. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/LATIN AMERICA |  |  |  |  |  |  |  |
| 1-511-80-10 (05/27/80) | 23 a/ | USAID/ Bolivia | P | Require host government to reconcile Bolivia Central Bank accounts with those of Intermediate Credit Institutions under AID-financed agricultural credit programs. | X |  | In December 1981, the Central Bank contracted with external auditors to accomplish a reconciliation of accounts as of 12/31/81. The audit work was scheduled to be completed by 3/31/81. Recommendation closing awaits AID's receipt of (i) the auditor's report, and (ii) the Central Bank's issuance of a quarterly reconciliation report for the period 1/1/82 through 3/31/82. |
| 1-520-81-10 (03/31/81) | 4 | USAID/ Guatemala | P | Require that the host government institute a maintenance program for buildings provided under a disaster assistance program; and assure that 61 doors purchased for these buildings are removed from storage and installed. |  | X | The host government has provided some information in response to USAID/ Guatemala's follow-up on this recommendation. However, that information does not provide assurance that the 61 doors have been put to appropriate use. The Mission is therefore pursuing the matter further with the host government. |

BUREAU/OFFICE: Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-520-81-10 (Cont'd) | 7 | USAID/ Guatemala | P | Obtain an accounting from the host government on the locations and use of 97 AID-financed water tanks valued at about $109,000. | | X | USAID/Guatemala obtained an accounting for 55 of the 97 water tanks, and in December 1981 requested a report on the other 42 water tanks. As of 3/31/81, the IG's Office had not been notified that the host government has responded to the Mission's December request. |
| " | 9 | " | P | Follow up with AID/W officials to assure that $123,000 in host country trust funds are charged for equipment obtained at least 4 years ago through AID's excess property program. | X | | Both USAID/Guatemala and the IG's Office have followed up with FM/CAD on this matter. However, as of 3/31/82, FM/CAD had still not reported that the recommended action had been implemented. |
| 1-518-81-19 (06/30/81) | 2 | USAID/ Ecuador | P | Assure that commodities provided through a grant to the Working Boys' Center are controlled by means of periodic physical counts that are reconciled with inventory records. | X | | In January 1982, USAID/ Ecuador reported that funds had been provided to the Working Boys' Center to have an accounting firm study the Center's financial and property accounting systems. The Mission anticipates that the work under this contract will be completed by 4/30/82. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status Resolved | Status Unres. | Comment |
|---|---|---|---|---|---|---|---|
| RIG/A/WASHINGTON | | | | | | | |
| 0-000-80-30 (02/29/80) | 7 a/ | AA/SER | P | Modify Labor Institute grants and contracts to incorporate newly developed evaluation criteria and reporting requirements. | | X | SER cannot take action on these recommendations until the evaluation criteria and reporting requirements are developed (see Recommendation Nos. 6 and 8 of this same report, which are addressed to PPC and which remain unresolved). |
| " | 9 a/ | AA/SER | P | Consolidate Labor Institute contractual agreements/grants and standardize planning, evaluation and reporting requirements. | | X | |
| 0-000-80-110 (09/30/80) | 2 | AA/SER | P | Establish procedures to account for and control AID-owned property in the custody of contractors. | X | | On 3/26/82, AA/SER reported that his bureau was in the process of mailing letters to contractors in the U.S., requesting listings of AID-owned property in their possession. The contractors' replies, which are expected by June 1982, will then be entered into the AID/W property system. |
| 0-000-81-25 (12/18/80) | 1 | SER/CM | P | Assure that the contractor allocates costs to all AID contracts on a consistent basis. | X | | On 3/11/82, the AA advised that the contractor was reviewing changes recommended |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
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| | | | | | Resolved | Unres. | |
| 0-000-81-25 (Cont'd) | | | | | | | by SER/CM in the contractor's proposed accounting manual. When SER/CM and the contractor reach final agreement on the content of the manual, the recomdation can be closed. |
| 0-000-81-26 (12/24/80) | 3 | SER/DM | P | Develop and implement procedures to inform ADP users of their responsibilities for ADP security. | | X | SER/DM believes that this recommendation will be satisfied through implementation of Recommendation Nos. 6, 7, 9, 14 and 19. Currently, only two of those five recommendations (Nos. 6 and 19) have been resolved and closed. |
| " | 4 | SER/DM | P | Develop a policy statement on (i) the importance of ADP security, (ii) security goals, and (iii) policies and procedures to achieve them. | X | | On 12/10/81, the members of the Security Task Force approved the policy statement. SER/DM was scheduled to publish this statement in an Agency-wide notice during March 1982. |
| " | 7 | SER/DM | P | Improve password utilization and effectiveness. | | X | In its December status report, SER/DM reported that an internal directive on this topic had been drafted and circulated. However, the directive was |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-81-26 (Cont'd) | 9 | SER/DM | P | Require that all critical and sensitive ADP applications be protected by a specialized software program. | | X | not issued because of concerns about its potentially negative impact on ADP operations. In January 1982 SER/DM reported that it was investigating an alternative approach, which was scheduled for implementation by the end of March. |
| " | 11 | SER/DM | P | Change work schedules so that direct-hire personnel (vs. U.S. contractor personnel) have sole access to and control of the magnetic tape library. | | X | SER/DM cannot take action on this recommendation until ADP security responsibilities and authorities are defined for contract personnel (see Recommendation No. 5 of this same report, which is addressed to SER, IG/SEC and GC and which remains unresolved). |
| " | 12 | SER/DM | P | Improve the security of sensitive data and programs in the tape library. | X | | In January 1982, SER/DM conducted an inventory of magnetic tapes and disks to identify those containing sensitive data and programs. SER/DM then began drafting procedures to protect sensitive media in accordance with the guidelines specified in FIPS Publication No. 41. This |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-81-26 (Cont'd) | | | | | | | task was scheduled for completion in March. |
| " | 14 | SER/DM | P | Develop procedures for (i) identifying and ranking critical data and applications; (ii) reconstructing damaged or destroyed data files; (iii) detailing action to be taken and fixing responsibilities, should back-up operations become necessary. | | X | In its December 1981 status report, SER/DM reported that procedures for identifying and ranking critical data and applications would be developed by the end of FY 82. The other issues in this recommendation are being addressed in conjunction with action on Recommendation No. 15. |
| " | 15 | SER | P | Develop a back-up plan for data processing in the event of shutdown of AID's processing facility. | X | | During December/February 1982, SER/DM conducted an off-site processing test of two applications. A report on the results of the test was scheduled to be available in March. This report will help management address the manpower and budget required to establish a back-up processing capability for critical systems. This task is expected to be completed in the next FY quarter. |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-81-26 (Cont'd) | 16 | SER/DM | P | Establish emergency recovery procedures for AID's data processing operations. | | X | In February 1981 the AA responded that disaster recovery plans will be developed only after back-up operations are instituted. |
| " | 17 | AA/SER | P | Improve the physical security of ADP equipment by arranging for non-AID and non-U.S. Government tenants to move from the premises. | X | | The non-U.S. Government tenant has moved and SER/MO is negotiating with the non-AID tenant to move. |
| " | 18 | SER/MO | P | Improve audibility of fire warning system throughout the premises. | X | | Although two additional fire alarms were installed within the computer work area in July 1981, neither alarm has been wired into the building alarm system. In January 1982 SER/MO reported that GSA was negotiating with building management to accomplish the wiring. |
| " | 25 | SER/MO | P | Schedule training in the use of fire extinguishers for computer center operations and security guard personnel. | X | | Training has been scheduled on four dates. On each occasion, GSA has canceled. In November IG requested a status report and estimated completion date. In January SER reported that assistance to complete this activity would be sought |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-000-81-26 (Cont'd) |  |  |  |  |  |  | from the Commissioner of GSA's National Capitol Region. |
| " | 26 | SER/MO | P | Review the emergency shutdown system, and evaluate the advantages of an electrical current interrupt system. | X |  | SER/MO requested an electrical review and evaluation from GSA in January 1981. Funding was approved in March 1981. SER personnel have requested GSA complete the inspection and produce the report on several occasions. This review is now scheduled to begin in April with completion by May 15, 1982. IG will follow-up in May. |
| " | 13 | SER/MO<br>SER/DM<br>FM | P | Produce a comprehensive building self-protection plan identifying emergency conditions and procedures impacting ADP operations. | X |  | An updated plan has been prepared. In March 1982, a copy was sent to the IG for review. IG plans to comment on the plan in April |
| 0-000-81-32 (01/19/81) | 1 b/ | SER/CM | M | Ensure settlement of the contractor's termination claim based on contract costs and fixed fee recommended for acceptance. | X |  | The contractor accepted the proposed settlement including a reduced fixed fee on 2/2/82. Implementation of the settlement was scheduled for completion by the end of March 1982. |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-000-81-32 (Cont'd) | 2 b/ | SER/CM | P | Require the contractor to substantiate the fixed fee claimed and negotiate the fixed fee in accordance with FPR 1-8.4. | X |  | See Recommendation No. 1. |
| 0-000-81-35 (01/29/81) | 2 | FM | P | Ensure that adequate financial personnel and safeguards are present before funds are disbursed for Sahelian development assistance. | X |  | On 3/10/82, the AID Controller reported that a West Africa Controllers' Conference was scheduled for late March to (i) assess the adequacy of field controller evaluation and monitoring of financial management of Sahelian AID recipients; (ii) determine if the planned and current field controller staff levels are adequate; and (iii) determine if certain FM efforts to improve financial monitoring are succeeding. The IG expects to receive the Controller's report on these issues in April. |
| 0-000-81-49 (03/04/81) | 2 | SER/CM | P | Advise the contractor that costs cannot be billed to AID until the services are provided and the payment made. | X |  | On 3/11/82 the AA advised that resolution of these recommendations has been delayed because the contractor's principal was |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-81-49 (Cont'd) | 3 | SER/CM | P | Stipulate the portion of the contractor's pension, training and related expenses that will be acceptable as indirect expenses. | | X | travelling overseas and thus not available to respond to the audit findings in a timely manner. However, as of that date, SER/CM was evaluating additional information provided by the contractor and expected to resume negotiations with the contractor by the end of March. |
| 0-000-81-81 (05/26/81) | 1 | AA/SER | P | Develop and implement procedures to control unnecessary year-end buying. | X | | In January 1982 AID defined a system of advance procurement planning, in compliance with this recommendation and Office of Federal Procurement Policy Letter 81-1. Detailed guidance on implementing this system is to be issued to Agency personnel in May 1982. Recommendation closing awaits the issuance of this detailed guidance. |
| 0-932-81-82 (05/26/81) | 4 b/ | SER/CM | M | Calculate and obtain a refund of interest earned on AID funds by the grantee's central office. | X | | On 3/31/82 SER/CM advised that the grantee (i) is currently calculating the amounts of interest due AID; and (ii) expects to |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-932-81-82 (Cont'd) | 5 b/ | SER/CM | M | Calculate and obtain a refund of interest earned on AID funds by the grantee's subsidiary offices. | X | | refund the appropriate amounts to AID in April 1982. |
| " | 7 | SER/CM | P | Require the grantee to report periodically on progress made in obtaining external audit firms' compliance with the grantee's new external audit manual. | X | | The external audit manual has been provided to the grantee's subsidiary organizations, and is being used by external audit firms in the preparation of their 1981 audit reports. These reports are to be submitted to the grantee by 6/30/82; and the grantee has agreed to provide AID with an evaluation of them by 10/1/82. |
| " | 16 | AA/SER | P | Develop a policy to coordinate support to grantees receiving assistance from more than one AID Bureau/Office, when general support grants are involved. | | X | In June 1981 the IG's Office was informed that this recommendation had been referred for action by the AID Procurement Policy Advisory Panel. On 3/31/82, AA/SER advised that the Panel had still not made a final determination on the issue. |
| 0-000-81-89 (06/17/81) | 1 | SER/CM | P | Delay making further contract awards to this company pending resolution of audit issues. | | X | The IG has directed that no action be taken on these recommendations |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-000-81-94 (06/24/81) | 1 | SER/CM | P | As above. | | X | pending the results of IG investigative work. |
| 0-000-81-112 (07/28/81) | 5 b/ | SER/CM | M | Review and settle questioned and unresolved costs of approximately $159,000 that were reimbursed to a private voluntary organization (PVO). | | X | The PVO has refunded approximately $20,000, and has submitted additional documentation relative to the remaining questioned/unresolved costs. As of March 1982, this additional documentation was under review by the cognizant AID contract officer. |
| 0-000-81-115 (08/06/81) | 1 b/ | SER/CM | M | Finalize the recommended fringe benefit, overhead, and general and administrative rates for three fiscal years. | X | | DOT is the cognizant agency for negotiation of the overhead rates. On 3/1/82, DOT informed SER that an agreement on overhead rates had been reached with the contractor. DOT planned to issue a final negotiation document within a few days thereafter. Upon receipt of this document, SER can issue the necessary Negotiated Indirect Cost Rate Agreement to close the recommendation. |
| 0-000-81-130 (09/08/81) | 1 b/ | SER/CM | M | Ensure settlement of questioned costs totalling $13,182 | | X | SER/CM has allowed $9,767 of the questioned costs, |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 0-000-81-130 (Cont'd) |  |  |  | which were reimbursed to a private voluntary organization under various grants. |  |  | based on additional documentation provided by the grantee. However, as of 3/31/82, the grantee had not responded to the recommendation with respect to the remaining $3,415. |
| 0-107-81-131 (09/09/81) | 2 | SER/CM | P | Require that the grantee arrange for final audits of disbursements under subordinate agreements, in accordance with a standard external audit format. (IG audit rights do not extend to these subordinate agreements.) | X |  | On 11/9/82 the grantee reported that (i) it was following-up to obtain the delinquent audit reports and transmit them to AID; (ii) it was prepared, in future subordinate agreements, to assert the grantee's right to conduct an audit if the subgrantee failed to do so; and (iii) it would take steps to develop a standard audit format. On 1/22/82, SER/CM notified the grantee that it would be required to (i) obtain the delinquent reports, analyze them, and submit a report of findings to AID; (ii) complete the external audit format; and (iii) submit the proposed |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 0-107-81-131 (Cont'd) | | | | | | | changes to be made in future subordinate agreements. |
| 0-000-81-142 (09/30/81) | 1 | SER | P | Reevaluate Agency procurement policy regarding recipient procurement capability; level of AID involvement in the procurement process; and use of alternative procurement channels. | | X | SER submitted a lengthy response to this recommendation on 3/29/82. That response is now under review by the IG's Office. |
| RIG/A/CAIRO | | | | | | | |
| 6-263-81-1 (11/30/80) | 2 | M/FM | P | Clarify Agency cash management policies on advances, progress payments, and documentation standards. | X | | FM reconvened the Cash Management Committee to develop a revised policy on advance financing of host country contracts. The Committee has prepared draft directive material and distributed this to all AID bureaus and interested offices on 1/26/82. The draft is now being revised to incorporate the resulting comments. FM reported on 3/31/82 that they expect all outstanding issues to be resolved by 5/17/82. |
| " | 3 | M/FM | P | Establish procedures and safeguards to insure proper approvals of, and controls over, CIP advance and progress payments. | X | | |

BUREAU/OFFICE: Management

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 6-263-81-5 (12/30/80) | 6 | M/FM | P | Modify an AID/W computer program to include Letter of Credit information in order that Missions can reconcile commodity arrivals with AID/W disbursements. | | X | On 11/17/81 FM reported problems in implementing the recommendation as stated, and suggested that the same purpose could be achieved by USAID/Cairo's obtaining Letter of Credit data directly from Egyptian banks. On 12/21/81, FM proposed this alternative mechanism to the Mission. The Mission reported on 3/15/82 that all 10 Egyptian banks had been contacted and requested to provide the Letter of Credit data, but no reports had yet been received. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/CAIRO | | | | | | | |
| 6-263-80-6 (05/29/80) | 7 a/ | USAID/ Egypt | M | Determine the amount of non-U.S. source and origin procurements by a subcontractor; and recover those amounts. | X | | In March 1982, USAID/Egypt and RIG/A/Cairo jointly reviewed the contractor's procurement records and determined that, apart from certain issues relating to shipping charges, a Bill for Collection for $111,310 should be issued. The questions relating to the shipping charges are being reviewed by the GC and a final legal determination is expected by 5/7/82. |
| 6-263-81-1 (11/30/80) | 9 | " | P | Define adequate controls over a counterpart fund account; and issue corresponding implementing documents. | X | | On 3/23/82, the Mission reported that (i) its formal proposal for monitoring operations of the Special Account is currently being studied by the host government and its Central Bank, and (ii) the Mission will issue the necessary Implementation Letter when host government comments/ concurrence are received. |

BUREAU/OFFICE: Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 6-263-81-9 (03/30/81) | 6 | AA/NE | P | Initiate required actions, based on the GC determination made in response to Recommendation No. 5 (see p. 54 of this Appendix). | | X | Action on this recommendation awaits resolution of Recommendation No. 5 (see p. 54 of this Appendix). |
| " | 7 b/ | " | M | Determine the amount of customs duties and taxes paid for items costing more than $500 and obtain a refund from the host government. | | X | On 3/31/82, the AA reported that this recommendation has important Agency-wide implications as well as major implications with respect to AID programs in Egypt involving local cost financing. The recommendation is presently being reviewed by GC's office, which expects to complete its review and provide guidance on this matter by mid-April. |
| 6-263-81-10 (06/15/81) | 4 | AA/NE | P | Obtain and implement guidance from AID/W on the appropriate method of paying contractors for providing procurement services. | X | | At the end of March 1982, M/SER/MO advised that current Agency practice in this area, i.e., establishing fees as a percentage of commodity costs, is under review (see IG audit report 0-000-81-142, p. 34 of this Appendix). Pending completion of that review, |

BUREAU/OFFICE: Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 6-263-81-10 (Cont'd) | | | | | | | and issuance of AID policy direction, the Mission was advised to use fixed fees whenever practicable. Recommendation closing awaits notification that the Mission has implemented this interim guidance. |
| " | 8 b/ | USAID/ Egypt | M | Determine and recover U.S. dollar payments made to the consultant for return travel excess baggage charges. | X | | USAID/Cairo has determined the amount of excess baggage charges to be $2,696. On 3/29/82, the AA advised that the Mission will offset this amount on the consultant's next payment voucher. |
| 6-263-81-11 (06/16/81) | 5 b/ | USAID/ Egypt | M | In coordination with the host government, resolve questioned costs of about $139,530 ($74,866 and LE 45,251) reimbursed under an AID-financed host country contract. | | X | On 3/31/82, the AA reported that the Mission had received a response from the contractor on the 17 cost items questioned in this recommendation. The IG has not been advised of USAID/ Egypt's projected timetable for resolving these questioned costs. |

BUREAU/OFFICE: Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/NAIROBI | | | | | | | |
| 3-664-81-14 (08/14/81) | 1 b/ | USAID/ Tunisia | M | Determine whether action has been taken to resolve various contract issues raised by the Mission with the contractor in January 1978. | | X | Communication problems between USAID/Tunisia and AID/W delayed any action on this recommendation for 5 months. In February 1982, SER/CM transmitted the 1978 correspondence to the contractor, requesting comments. In March, the Mission advised that it has now made a tentative analysis of the issues based on its records. As of 3/31/82, the contractor's response had not been received. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: U.S. Foreign Disaster Assistance

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/WASHINGTON |  |  |  |  |  |  |  |
| 0-902-81-118 (08/17/81) | 1 | OFDA | P | Clearly define those rehabilitation activities that are eligible for financing from disaster relief funds. |  | X | On 12/10/81, OFDA submitted draft guidance on this issue for the IG's review. On 1/11/82, the IG (i) notified OFDA that the draft guidance was not satisfactory, and (ii) suggested that OFDA refer the matter for GC review. A GC opinion was issued in March and is currently under review by the IG's Office. |
| " | 7 | " | P | Ensure that suppliers advise OFDA of the imminent arrival of disaster relief goods, so that OFDA can notify the stockpile managers. |  | X | OFDA has limited its actions to date on this recommendation to reiterating its own internal procedures, which do not affect suppliers' actions. On 3/15/82, the IG clarified the outstanding issue in this recommendation, and asked that OFDA address it. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Program and Policy Coordination

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/WASHINGTON | | | | | | | |
| 0-000-80-30 (02/29/80) | 6 a/ | AA/PPC | P | Develop uniform evaluation criteria and reporting requirements for Labor Institutes. | | X | On 1/19/81, PPC agreed to develop the recommended uniform evaluating and reporting systems. On 4/17/81, PPC advised that a working group had been established to accomplish this task; and the group's recommendations were scheduled to be made by 7/31/81. On 10/1/82, PPC advised that it was taking a different and more in-depth approach to this problem, but the task should be completed within the next couple of months. Despite several follow-up notices, the IG has received no further report on this matter. |
| " | 8 a/ | " | P | Reassess existing reporting requirements to identify which are necessary for Labor Institutes. | | X | |

### INSPECTOR GENERAL
### RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
### AS OF MARCH 31, 1982

BUREAU/OFFICE: Science and Technology

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/WASHINGTON | | | | | | | |
| 0-000-81-67 (04/28/81) | 3 | ST/DS | P | Perform a field assessment of a grantee's project evaluation system. | X | | On 3/16/82, the SAA reported that the evaluation begun in January was nearly complete and a draft report of the project evaluation system was available. The IG is keeping the recommendation open pending issuance of an acceptable final report. |
| 0-932-81-82 (05/26/81) | 9 | ST/POP | P | Require the grantee to establish a standard system for follow-up on recommendations of evaluations of its country programs. | X | | The grantee has drafted a revised Management Audit Manual which incorporates a system of recommendation follow-up. Recommendation closing awaits final issuance of that Manual. |
| RIG/A/KARACHI | | | | | | | |
| 5-367-81-12 (05/21/81) | 3 b/ | ST/IT | M | Require the overdue participant trainee to return to Napal and take up his duties under an AID-financed project, or obtain a refund of the cost of his training. | | X | Although significant efforts have been made to induce the participant to return to Nepal from USA, as of 3/31/82 these efforts had been to no avail; and AID had requested action by INS to resolve this matter. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

**BUREAU/OFFICE:** Food For Peace and Voluntary Assistance, and Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/NAIROBI |  |  |  |  |  |  |  |
| 3-663-81-11 (06/19/81) | 7 b/ | FVA & AFR | M | Ensure that the host government implementing agency appropriately use the equivalent of $792,000 in funds generated under a P.L. 480 Title II monetization agreement; or recover the funds. |  | X | With the support of AID's FVA and Africa Bureaus, the U.S. Embassy in Ethiopia is negotiating with the host country implementing agency on a reprogramming of these funds which would allow for their early disbursement. |

BUREAU/OFFICE: Food For Peace and Voluntary Assistance, and Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/KARACHI |  |  |  |  |  |  |  |
| 5-386-80-7 (07/02/80) | 1 a/ | USAID India | M | Obtain documentation for or recovery of $36,851 in questioned costs incurred by a PVO under P.L. 480 Title II Transfer Agreements. |  | X | The PVO continues to dispute the final Bill amount (negotiated down to $23,415 in local currency). As of March 1982, negotiations by FVA, GC and the PVO were underway in order to achieve an out-of-court settlement of the matter. |
| 5-386-81-6 (02/12/81) | 4 | USAID/ India | P | Determine that all local currency fund generations under a P.L. 480 Title II Transfer Agreement are accounted for; and insure that the equivalent of over $3 million in such generations are deposited in a special account. |  | X | The Mission completed the recommended review of counterpart fund generations in April 1981. The Indian implementing agency transferred the equivalent of $2.9 million to a special account on 2/27/81. However, both the U.S. project sponsor and the Indian implementing agency have contested their obligation to deposit the remaining $120,000.*** |

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***Action on these recommendations continues to await resolution of several major project management issues relating to IG audit rights over the project and the treatment of all sales proceeds as U.S. contributions. AA/ASIA and USAID/ India have made extensive efforts, over the past six months, to resolve these issues. As of 3/31/82, their efforts had only limited effect on the position of the Indian implementing agency.

BUREAU/OFFICE: Food For Peace and Voluntary Assistance, and Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 5-386-81-6 (Con't) | 5 | USAID/ India | P | Amend the Transfer Agreement to define specific procedures whereby project fund generations will be deposited promptly in a special account. | | X | Despite the Mission's support for the recommendation, neither the U.S. project sponsor nor the Indian implementing agency has agreed to these procedures.*** |
| 5-386-81-6 (Cont'd) | 6 | USAID/ India | P | Assure that interest earned (on fund generations not deposited in a special account) is deposited in a special account. | | X | Two million rupees ($258,000) in interest earned has still not been deposited in a special account.*** |
| " | 10 b/ | " | M | Review disbursements of 65.2 million rupees ($8.413 million) from a special account, and recover amounts ineligible for project financing. | | X | The Mission and AID/W expected to resolve this recommendation by revising the Transfer Agreement. However, before that revision could take place, a revised operational work plan was necessary. The revised operational work plan, which was due in May 1981, has still not been received by the Mission.*** |
| " | 13 | " | P | Establish procedures for the deposit and use of proceeds realized from project loan refunds and interest thereon. | | X | The Mission obtained a legal opinion which supports its position (and that of the auditors) that loan reflows should be de- |

BUREAU/OFFICE: Food For Peace and Voluntary Assistance, and Asia

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status Resolved | Status Unres. | Comment |
|---|---|---|---|---|---|---|---|
| 5-386-81-6 (Con't) | | | | | | | posited in a project account to be used for project purposes. The U.S. and Indian project sponsors contest this position, alleging that they were to have flexibility in the use of loan reflows.*** |
| 5-386-81-14 (08/11/81) | 1 b/ | USAID/ India | M | Review billings by a host government entity for gunny bags used to distribute Title II wheat; and recover amounts due AID. | | X | In January 1982, the host government entity advised USAID/India that it would review the proposed billing adjustments only upon resolution of the sales tax issue. In March 1982, the GC notified the Mission that AID policy prohibits AID from paying taxes or duties on assistance activities; but the legal documents relating to the gunny bags did not provide an indisputable exemption to such levies. As of 3/31/82, discussions were still underway between AID/W and USAID/India on how to resolve this situation. |
| " | 2 | " | P | Obtain GC opinion on the legality of AID's reimbursing the host government entity for sales taxes in connection with the gunny bags. | | X | |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 (05/18/81) | 1 | USAID/ Nicaragua | P | Obtain the required final report from a PVO on its emergency P.L. 480 Title II food distribution activities. | X | | USAID/Nicaragua has taken steps to obtain the required report. Recommendation closing awaits the Mission's notification that they have actually received the report. |
| " | 2 | USAID/ Nicaragua | P | Amend a P.L. 480 Title II Transfer Agreement to reflect the fact that the host government did not distribute 25% of its yellow corn allocation to civil strife victims, as required, but instead sold the entire allocation. | X | | USAID/Nicaragua has reported that in January 1981 the host government restored 25% of the commodities to the program, and then distributed them in accordance with the Transfer Agreement. The IG has requested documentation on these actions before closing the recommendation. |
| " | 3 b/ | " | M | Obtain refund of proceeds realized from the host government's sale of Title II commodities that are | X | | USAID/Nicaragua has reported that all sales proceeds in excess of the value of replacement goods |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 (Cont'd) | | | | excess to the value of replacement goods and project costs. | | | have now been deposited in a special account to be used for project purposes. The IG has requested documentation on the calculation and verification of these excess funds before closing the audit recommendation. |
| " | 4 b/ | USAID/Nicaragua | M | Determine whether the amount of Title II sales proceeds allocated for project costs is in excess of project needs. | X | | USAID/Nicaragua agreed to make this determination in conjunction with a global reprogramming of Title II commodities that was requested in October 1981. The new program was to have been submitted for Mission approval on or about 1/15/82. Recommendation closing awaits a final determination by the Mission, as well as initiation of any further action necessary as the result of that determination. |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 | 5 | USAID Nicaragua | P | Assure that the host country meets its obligation to provide commodities for free distribution that have a value equivalent to the proceeds realized through the government's sale of P.L. 480 wheat and milk. | X | | USAID/Nicaragua has resolved this recommendation by establishing procedures with the host government for the provision of the required exchange commodities. However, before closing this recommendation, the IG has requested the Mission's assurance that these procedures are being followed and commodity replacements are taking place accordingly. |
| 1-524-81-15 (Cont'd) | 7 | USAID/ Nicaragua | P | Assure that replacement commodities are obtained for P.L. 480 commodities loaned to the Agrarian Reform Institute without AID's authorization. | X | | USAID/Nicaragua has requested that the host country implementing agency obtain commodities to replace those loaned without AID approval. Recommendation closing awaits the Mission's notification that the replacement commodities have actually been provided. |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 (Cont'd) | 8 | USAID Nicaragua | P | Redefine and focus the objectives of the Government-to-Government Title II project, in order to assure that the host government ceases providing project commodities to unauthorized activities and ineligible recipients. | X | | USAID/Nicaragua has reached agreement with the host government implementing agency on a redefined set of general project objectives. Recommendation closing awaits the Mission's notification that these objectives have now been carried forward into a Mission-approved distribution plan. |
| " | 9 | " | P | Assure that the host government implementing agency discontinues P.L. 480 food distributions to Cuban officials. | X | | USAID/Nicaragua has verbally advised the host government implementing agency that these food distributions should be discontinued. Recommendation closing awaits assurance from the Mission that the distributions have actually ceased. |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 1-524-81-15 (Cont'd) | 10 b/ | USAID/ Nicaragua | M | Obtain a refund or replacement commodities for P.L. 480 commodities already distributed to Cuban officials. | X |  | The host government implementing agency has agreed to provide a full accounting of, and replacement for, the commodities provided to Cuban officials. Recommendation closing awaits Mission notification that the commodities have actually been replaced. |
| " | 12 | " | P | Establish reporting requirements for Food-For-Work projects, so that USAID/Nicaragua can monitor the status of these projects. | X |  | In October 1981, USAID/ Nicaragua and the host government implementing agency agreed on a new reporting format. Recommendation closing awaits Mission confirmation that the new format has been used in reporting all subsequent distributions under these projects. |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 (Cont'd) | 14 | USAID/ Nicaragua | P | Amend an emergency cash transfer grant agreement to reflect the fact that the host government used $1 million of the local currency generated by the grant for grain purchases rather than for the procurement of supplies and equipment, as intended. | | X | USAID/Nicaragua has contested the need for the recommended amendment to the grant agreement. By memorandum of 3/15/82, the IG asked the AA/LAC to refer this matter for a General Counsel opinion. |
| " | 16 | " | P | Assure that the host government implementing agency completes the required evaluation of the AID-financed grain stabilization program. | X | | USAID/Nicaragua has requested and obtained several draft evaluations of the program. Recommendation closing awaits the Mission's formal acceptance of a final evaluation report. |
| " | 20 b/ | " | M | Assure that $1.5 million in Title I sales proceeds--which was advanced to but not needed for the national literacy campaign--is returned to the International Reconstruction Fund and reprogrammed. | X | | USAID/Nicaragua has asked the International Reconstruction Fund to obtain this refund and make the funds available for reprogramming. However, as of 3/31/82, the IG had not been notified that these actions had taken place or even been agreed to. |

BUREAU/OFFICE: Food for Peace and Voluntary Assistance, and Latin America and Caribbean

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 1-524-81-15 (Cont'd) | 21 b/ | USAID/ Nicaragua | M | Assure that an additional $600,000 in Title I sales proceeds being held for the national literacy campaign by the International Reconstruction Fund are reprogrammed. | X | | Again, USAID/Nicaragua has asked that all Title I sales proceeds programmed for the national literacy campaign be made available for programming. However, as of 3/31/82, the IG had no indication that the host government had agreed to take this action. |
| " | 22 | " | P | Require the host government and the sponsoring PVO of the P.L. 480 Title II program to implement the required publicity program. | X | | USAID/Nicaragua has reminded the PVO of its obligation to carry out a publicity program, and has asked for a report of the PVO's efforts to meet this obligation. The recommendation remains open pending Mission review and approval of the PVO's response. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: General Counsel and Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/CAIRO |  |  |  |  |  |  |  |
| 6-263-81-9 (03/30/81) | 5 | GC & AA/NE | P | Make a determination on whether vehicles procured with project funds can be (i) exchanged for foreign vehicles, and (ii) assigned to GOE officials who do not use them solely for project purposes. |  | X | The GC issued an opinion on 3/2/82 which addressed the exchange of the 2 vehicles. However, the other question, whether project vehicles can be assigned to host government officials who do not work full-time on the project, remains unresolved. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Management and General Counsel

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIC/A/WASHINGTON |  |  |  |  |  |  |  |
| 0-932-81-82 (05/26/81) | 15 | SER & GC | P | Develop standard provisions for general support grants that are compatible with the concept of general support. |  | X | In June 1981, SER advised that this recommendation had been referred to the Agency's Procurement Policy Advisory Panel for action. On 3/31/82, AA/SER advised that the Panel still had not reached a determination on this matter. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Management and Inspector General

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/WASHINGTON |  |  |  |  |  |  |  |
| 0-000-81-26 (12/24/80) | 21 | SER & IG | P | Improve access control to computer center operations consistent with fire safety considerations. | X |  | In its December status report, SER reported that a solution for improving access control had been approved; and GSA would be requested to make the necessary construction modifications. SER estimates that this task will be completed by June. |
| " | 33 | " | P | Construct a counter to prohibit easy access to computer center operations. | X |  |  |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Management, Inspector General, and General Counsel

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| **RIG/A/WASHINGTON** | | | | | | | |
| 0-000-81-26 (12/24/80) | 5 | SER, IG/SEC, & GC | P | Define ADP security responsibilities and authority for contract personnel. | | X | On 12/15/81, the AA reported that a contract had been executed for the purpose of improving ADP security, including the establishment of Agency data processing personnel security policies and standards for contractor employees. The AA projected that the issue raised by this recommendation would be resolved by March 1982. |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Private Enterprise and Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/NAIROBI | | | | | | | |
| 3-615-80-19<br>(06/27/80) | 1 a/ | PRE &<br>AFR | P | Require that the local government: | | X | |
| | | | | A. Have homeowner accounts brought up to date and audited; and provide an analysis of the delinquencies. | | | A. To date the homeowner accounts have not been brought up to date, the accounts have not been audited and an analysis of delinquencies has not been made.**** |
| | | | | B. Establish a decentralized collection facility at the Umoja project site. | | | B. A decentralized facility was established at Umoja, but the cashier can accept only the current month's payment and does not have data on hand that reflects the current status of homeowner accounts. Thus all arrearages and questions must be taken up at City Hall.**** |

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****These 6 recommendations were reopened on March 25, 1982, as a result of a follow-up review by the Regional Inspector General for Audit in Nairobi. The follow-up review revealed that (i) in some cases, agreed-upon actions had not been completed; and (ii) in other cases, the actions taken were not in accord with the commitments previously made. The recommendations were originally closed between May and October of 1981.

BUREAU/OFFICE: Private Enterprise and Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| 3-615-80-19 (Cont'd) | | | | C. Establish an operative accounting system, at least partially mechanized, to be used at the collection points for Umoja homeowners. | | | C. An accounting system at the collection point is not operating. However, it is planned that a mechanized system will be instituted at an office near Umoja as early as June 1982.**** |
| | | | | D. Develop and implement procedures to pursue delinquent accounts in accordance with Tenant Purchase Agreements. | | | D. Twenty-five Umoja houses were repossessed for delinquencies with 17 of these resold. The plan of action called for a target delinquency figure of 10% in arrears over 30 days. Since there has been no aging of accounts, it is impossible to determine the delinquency factor.**** |
| " | 2 a/ | " | P | Require the local government to institute a procedure whereby notices on delinquent accounts are sent out after 14 days, and all costs connected with the collection are assessed against the delinquent homeowner. | | X | This recommendation cannot be implemented until reconciliation and aging of the accounts takes place.**** |

BUREAU/OFFICE: Private Enterprise and Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 3-615-80-19 (Cont'd) | 3 a/ | PRE & AFR | P | Require that the local government (i) determine which housing units are not occupied by the original buyers; and (ii) apply the sanctions in the Tenant Purchase Agreements to eliminate subletting of entire units. |  | X | The survey of subletting that was promised for completion prior to 12/31/81 was not conducted. That survey was a prerequisite for the imposition of sanctions.**** |
| " | 4 a/ | " | P | Amend the Tenant Purchase Agreement to:<br>A. Allow an allottee to recoup only his investment when he is found to be in default of the TPA;<br>B. Eliminate the ban on partial subletting; and<br>C. Eliminate the 5-year limit on subletting of entire units so that the restriction is valid the life of the mortgage. |  | X | The new Tenant Purchase Agreements do not incorporate the recommended language. The draft TPA incorporating that language was not approved by the host government's Attorney General.**** |
| " | 6 a/ | " | P | Notify the local government of Umoja Estate maintenance deficiencies and the need to rectify these problems prior to executing a guaranty for a follow-on project. |  | X | The recommendation was originally closed based on the local government's issuance of a "Plan of Action for Clean Up and Maintenance of Umoja Estate." Audit follow-up revealed, however, that little progress had been made in project clean-up and maintenance. |

BUREAU/OFFICE: Private Enterprise and Africa

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 3-615-80-19 (Cont'd) | 8 a/ | PRE & AFR | P | Expedite the recording of Tenant Purchase Agreements. |  | X | The recommendation was closed based on AID management's conclusion that the local government was following satisfactory procedures in processing the Tenant Purchase Agreements. However, audit follow-up revealed that only 9 of the 1,022 TPAs were registered in the subsequent 10 months.**** |

INSPECTOR GENERAL
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

BUREAU/OFFICE: Private Enterprise and Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| RIG/A/NAIROBI |  |  |  |  |  |  |  |
| 3-664-81-10 (05/26/81) | 1 | RHUDO/ NE & USAID/ Tunisia | P | Consult with host government officials on means to: (i) strengthen construction supervision and controls over site acceptance awards; (ii) establish clear lines of reporting and control over unit expansions and invasion of public right of way; and (iii) develop procedures by which homeowners may seek and obtain compensation for construction and site defects. |  | X | In their joint 7/31/81 comments, the responsible AID management entities disputed the significance of the audit findings supporting this recommendation; and disagreed that any specific additional action should be taken to remedy them. The IG's Office did not respond until 3/10/82, at which time the IG asked whether the host government had been formally advised of the conditions described in the audit report. |
| " | 2 | " | P | Adopt a policy requiring at least annual visits by AID project managers to project sites under active construction. |  | X | Management's 7/31/81 comments disputed the need for/wisdom of such a policy. Again, the IG's Office did not respoond until 3/10/82, at which time the IG asked for a definition of the current site visitation policy/ practice. |

BUREAU/OFFICE: Private Enterprise and Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 3-664-81-10 (Cont'd) | 3 | RHUDO/ NE & USAID/ Tunisia | P | Insure provision by the host government of adequate community facilities at AID-guaranteed housing projects. |  | X | On 7/31/81, management advised that they would take steps to implement this recommendation. On 3/10/82, the IG asked for a report on the results achieved. |
| " | 7 | " | P | Determine that sufficient numbers of qualified home-buyers are available and their financing needs are such to absorb the escrow funds currently reserved for this purpose. |  | X | In the 7/31/81 comments, management outlined an approach to addressing this audit concern. However, subsequent correspondence indicated that the situation had not been satisfactorily resolved. On 3/10/82, the IG therefore asked for an updated status report. |
| " | 8 | " | P | Request that host country institutions provide analyses of homeowner repayments and determine if practices are adequate to address problems in delinquent mortgage loan payments. |  | X | In the 7/31/81 comments, management reported that this request had already been submitted to one institution, and would shortly be submitted to the second. In his 3/10/82 response, the IG asked whether the requested information has now been received, and whether AID management has judged it to be adequate. |

BUREAU/OFFICE: Private Enterprise and Near East

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| 3-664-81-10 (Cont'd) | 9 | RHUDO/ NE & USAID/ Tunisia | P | Advise the host government that AID-guaranteed housing units are being sublet; and encourage the host government to control this practice. |  | X | In the 3/31/81 comments, management advised that this was not a useful recommendation, and no action was planned on it. In his 3/10/82 response, the IG asked for clarification on whether AID management has discussed the subletting problem with the host government. |
| " | 10 | " | P | Determine the advisability of further publicizing the role of the U.S. Government in the Tunisia HG program. | X |  | The July 31 comments advised that ICA/Tunis had agreed to develop broader media exposure on this program. On 3/10/82, the IG requested information on the results achieved from that agreement. |

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* P - Procedural; M - Monetary.

a/ Section 305 of P.L. 96-304 (7/8/80) required these recommendations to be resolved not later than Sept. 30, 1981.

b/ According to S.305 of P.L. 96-304, these recommendations (which involve questioned costs and were issued after 7/8/80) should have been resolved within six months of report issuance.

STATE/AID JOINT ADMINISTRATIVE OFFICE (JAO)
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| RIG/A/WASHINGTON | | | | | | | |
| 0-000-81-54<br>(03/12/81) | 1-3 | M/SER<br>MO | P | Devise a unified accountability system for furniture and other property pooled at posts abroad, seeking legislative authority if necessary. | X | | M/SER reported on 3/17/82 that they were participating with the State Department in the design of the Post Property System (PPS) to be implemented in Cairo. AID participated in a conference held in September 1981 and reportedly made input valuable to the design effort. Another meeting is planned for April or May 1982 to finalize the design of the PPS. Upon approval of the final design, the program will be implemented in Cairo. |
| " | 1-5 | M/PM | P | Establish a formal joint State/AID mechanism for personnel assignments to JAOs, implementing Sec. IV H, 6 of the State/AID Agreement of 6/28/79. | | X | AID strongly supports this recommendation as a means of providing better qualified JAO personnel, thereby improving JAO operations. On 3/31/82, M/PM/OS reported that two discussions have been held with the State Department, which is to submit a draft proposal for a joint mechanism to AID for comment. Because of differences in AID and State assignment systems, it is anticipated that discussions on this proposal will be protracted. |

GENERAL ACCOUNTING OFFICE
RECOMMENDATIONS OPEN MORE THAN SIX MONTHS
AS OF MARCH 31, 1982

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status |  | Comment |
|---|---|---|---|---|---|---|---|
|  |  |  |  |  | Resolved | Unres. |  |
| ID-81-08 (10/30/80) "AID Needs Clarification on Defense Base Insurance Requirements" | 2 | M/SER | P | Decide whether exemption from Defense Base Act coverage creates inequitable coverage not intended by the Act. If so, ask the Labor Secretary to include the individual development loans under the Defense Base Act. | X |  | A determination had been made that it is inequitable not to include all contractors under the Defense Base Act insurance. PPAP has met and recommended that Borrower/Grantee contracts be included under the DBA; the insurance firm quotations for inclusion under the DBA have been received; and an action memorandum for the Administrator's signature and a letter to the Secretary of Labor are reportedly in preparation. |
| " | 3 | " | P | Ensure that Defense Base Act coverage is available to all affected contractors at the lowest possible cost; and proceed with working toward a blanket contract for DBA coverage on host country contracts. | X |  |  |
| " | 4 | " | P | Contingently plan for inclusion of contracts in such a blanket contract; and obtain the Secretary of Labor's position on this. | X |  |  |

| Report No. (Issue Date) | Rec. No.(s) | Action Office | Type of Rec.* | Recommended Action | Status | | Comment |
|---|---|---|---|---|---|---|---|
| | | | | | Resolved | Unres. | |
| ID-81-19 (03/16/81) "U.S. Assistance to Egyptian Agriculture: Slow Progress After Five Years" | 2 | NE | P | Assess the effect of U.S.-financed imports on local Egyptian producers. | X | | The draft report of a review covering this subject is complete. Some additional field work and revisions to the report are in process, with the final report expected at the end of May 1982. |
| ID-81-40 (06/10/81) "Managing Assistance for Foreign Disaster Reconstruction" | 1 | PPC & M/SER | P | Strengthen monitoring of disaster reconstruction efforts, including the issuance of the revised Handbook 3. | X | | The revision of Handbook 3 is currently scheduled for completion in April. |
| " | 2 | " | P | Establish more stringent procedures to assure acknowledgment by host governments of AID assistance. | X | | This is being addressed in the revised Handbook 3. |
| ID-81-51 (08/25/81) "U.S. Strategy Needed for Water Supply Assistance to Developing Countries" | 1 (B, C,D, & F) | PPC | P | Develop comprehensive bilateral policies on support for water supply and sanitation. | X | | Draft policies were reviewed on 3/30/82 at a Senior Staff Policy Meeting, and are in the process of being revised in accordance with that March 30 review. Final presentation to the Administrator is expected during the third quarter of FY 82. |

ACTIONS ON MONETARY FINDINGS FROM
OCTOBER 1, 1981 THROUGH MARCH 31, 1982

|  |  |  | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES |  |  |  |  |  |  |  |  |  |  |
| 6-263-79-4 (06/15/79) | 2 | $ 744,000 | $ 250,000 | $ 494,000 | - | - | -0- | - | $ 250,000 | -0- |
| 3-660-79-16 (09/24/79) | 2 | 3,036,000 | 3,036,000 | - | - | - | -0- | 756,000 | -0- | $2,280,000 |
| 6-263-80-1 (10/30/79) | 2 | 22,720 | 22,720 | - | - | - | -0- | - | 22,720 | -0- |
| 0-000-80-48 (04/14/80) | 1 | 76,329 | 44,754 | 31,575 | - | - | -0- | - | - | 44,754 |
| 5-386-80-4 (04/15/80) | 1 | 46,093 | - | - | 38,704 | 7,389 | -0- | - | - | 38,704 |
| 6-263-80-5 (04/28/80) | 1 | 86,860 | - | - | 86,860 | - | -0- | - | - | 86,860 |
| 6-263-80-6 (05/29/80) | 7 | 200,000 | - | - | 111,310 | - | $ 88,690 | - | - | 111,310 |
| 0-000-80-67 (06/06/80) | 12 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 14 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 6-263-80-7 (06/10/80) | 18 | 100,100 | - | - | - | 100,100 | -0- | - | - | -0- |
| 5-386-80-7 (07/02/80) | 1 | 36,851 | - | - | 23,415 | 13,436 | -0- | - | - | 23,415 |
| 3-695-80-21 (07/18/80) | 2 | 690,669 | - | 284,259 | - | - | 385,410 | 21,000 | - | - |
| 1-511-80-15 (07/21/80) | 4 | To Be Deter. | 296,269 | - | - | - | -0- | - | - | 296,269 |
|  | 9 | To Be Deter. | - | - | 237,576 | - | -0- | - | - | 237,576 |
|  |  |  | - | - | 67,183 | - | -0- | - | - | 67,183 |
|  | 10 | To Be Deter. | - | - | 187,326 | - | -0- | - | - | 187,326 |
|  | 12 | To Be Deter. | - | - | 11,755 | - | -0- | - | - | 11,755 |

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
|  |  |  | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES (Cont'd) |  |  |  |  |  |  |  |  |  |  |
| 2-497-80-17 (07/29/80) | 10 | To Be Deter. | $ 67,903 | - | - | - | -0- | - | $ 64,815 | -0- |
| 0-000-80-89 (07/29/80) | 3 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-80-108 (09/24/80) | 1 | $ 28,086 | 28,086 | - | - | - | -0- | - | 6,000 | $ 25,900 a/ |
| 5-386-81-1 (10/09/80) | 8,9 | To Be Deter. | - | - | $ 3,794 | - | -0- | - | - | 3,794 |
| 1-520-81-3 (11/18/80) | 1,2 | 61,671 | 60,967 | $ 704 | - | - | -0- | $ 21,774 | 39,193 | -0- |
| 0-000-81-22 (12/15/80) | 1 | 128,482 | 111,477 | 17,005 | - | - | -0- | - | - | 111,477 |
| 0-000-81-25 (12/18/80) | 3 | 39,738 | 6,496 | 32,988 | - | - | -0- | - | 6,496 | -0- |
| 1-521-81-6 (01/07/81) | 5 | 209,000 | 181,569 | 27,432 | - | - | -0- | 19,452 | - | 162,117 |
| 0-000-81-28 (01/07/81) | 1 | 1,059,309 | 16,137 | 1,043,172 | - | 16,137 | -0- | - | - | -0- |
| 0-000-81-30 (01/19/81) | 1 | 12,836 | 12,149 | 687 | - | 555 | -0- | 11,594 | - | -0- |
| 0-000-81-32 (01/19/81) | 1 | 2,743 | - | - | 4,063 | - | -0- | - | 4,063 | -0- |
| 5-386-81-6 (02/12/81) | 10 | 8,413,000 | - | - | - | - | 8,413,000 | - | - | - |
|  | 12 | 1,612 | - | - | - | 1,612 | -0- | - | - | -0- |
| 0-000-81-44 (02/13/81) | 2 | 466,500 | - | - | 310,039 | 156,461 | -0- | - | - | 310,039 |
|  | 3 | 2,214,684 | 2,214,684 | - | - | - | -0- | - | 221,468 | 1,993,216 |
|  | 4 | 594,020 | 594,020 | - | - | - | -0- | 288,515 | - | 305,505 |
|  | 5 | To Be Deter. | - | - | 41,752 | - | To Be Deter. | - | 10,913 | 30,839 |

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a/ Includes interest penalty.

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION | | | | | COLLECTIONS/PAYMENTS/DEOBLIGATIONS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Previous Period | | This Period | | | | | |
| | | | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| 1. RECOVERIES (Cont'd) | | | | | | | | | | |
| 5-388-81-7 (02/19/81) | 1 | $ 245,414 | - | - | $ 85,299 | $ 160,115 | -0- | - | - | $ 85,299 |
| 5-388-81-8 (02/25/81) | 7 | 308,000 | - | - | 246,930 | 61,070 | -0- | $ 33,407 | $ 144,520 | 69,003 |
| 0-000-81-50 (03/06/81) | 2 | 550,000 | - | - | 106,897 | 443,103 | -0- | - | 106,897 | -0- |
| 0-000-81-58 (03/20/81) | 4 | 106,087 | 106,087 | - | - | - | -0- | - | 105,264 | 823 |
| | 7 | To Be Deter. | - | Not Sustained | - | - | -0- | - | - | -0- |
| 0-000-81-61 (03/27/81) | 4 | 471 | 471 | - | - | - | -0- | - | - | 471 |
| 6-263-81-9 (03/30/81) | 1 | To Be Deter. | - | - | - | Not Sustained | -0- | - | - | -0- |
| | 7 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 2-497-81-11 (04/27/81) | 5 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-81-67 (04/28/81) | 2 | To Be Deter. | - | - | 6,452 | - | -0- | - | 6,452 | -0- |
| 2-497-81-13 (05/18/81) | 6 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 1-524-81-15 (05/18/81) | 3 | To Be Deter. | - | - | b/ | - | b/ | - | b/ | b/ |
| | 4 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| | 10 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| | 20 | 1,500,000 | - | - | - | - | $1,500,000 | - | - | - |
| | 21 | 600,000 | - | - | - | - | 600,000 | - | - | - |
| 5-367-81-12 (05/21/81) | 3 | 19,000 | - | - | - | - | 19,000 | - | - | - |

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b/ The Mission advised that the funds at issue had been refunded to the project, but the amount of that recovery was not specified.

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
|  |  |  | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES (Cont'd) |  |  |  |  |  |  |  |  |  |  |
| 0-932-81-82 (05/26/81) | 1 | To Be Deter. | - | - | - | Not Sustained | -0- | - | - | -0- |
|  | 3 | To Be Deter. | - | - | $ 13,042 | - | -0- | - | $ 13,042 | -0- |
|  | 4 | To Be Deter. | - | - | ( NLT ) | - | -0- | - | - | ( NLT ) |
|  | 5 | To Be Deter. | - | - | (500,000) | - | -0- | - | - | $ (500,000) |
| 2-497-81-[illegible] (05/28/81) | 1 | $ 153,200 | - | - | - | - | $ 153,200 | - | - | - |
|  | 3 | 12,272 | - | - | - | - | 12,272 | - | - | - |
|  | 4 | 5,017 | $ 5,017 | - | - | - | -0- | - | 5,017 | -0- |
|  | 5 | 6,000 | - | - | - | - | 6,000 | - | - | - |
|  | 6 | 685 | - | - | 685 | - | -0- | - | 685 | -0- |
|  | 7 | 105,162 | - | - | - | - | 105,162 | - | - | - |
| 0-000-81-83 (06/02/81) | 1 | 44,823 | - | - | 1,146 | $ 40.677 | -0- | - | 1,146 | -0- |
| 6-263-81-10 (06/15/81) | 5 | 3,520 | - | - | - | 3,520 | -0- | - | - | -0- |
|  | 6 | 49,280 | - | - | - | 49,280 | -0- | - | - | -0- |
|  | 7 | 200,000 | - | - | - | 200,000 | -0- | - | - | -0- |
|  | 8 | 5,000 | - | - | 2,696 | 2,304 | -0- | - | - | 2,696 |
| 6-263-81-11 (06/16/81) | 4 | 129,650 | 129,650 | - | - | - | -0- | - | 129,650 | -0- |
|  | 5 | 139,530 | - | - | - | - | 139,530 | - | - | - |
| 0-000-81-88 (06/16/81) | 1 | 2,724 | - | - | 2,724 | - | -0- | - | 2,724 | -0- |
| 3-663-81-11 (06/19/81) | 7 | 792,000 | - | - | - | - | 792,000 | - | - | - |
| 0-669-81-96 (06/26/81) | 4 | 1,013 | - | - | 670 | 343 | -0- | - | - | 670 |
| 0-000-81-97 (06/29/81) | 1 | 279 | - | - | 279 | - | -0- | - | 279 | -0- |

|  |  |  | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES (Cont'd) |  |  |  |  |  |  |  |  |  |  |
| 0-000-81-100<br>(07/08/81) | 1 | $ 1,448 | - | - | $ 1,448 | - | -0- | - | $ 1,448 | -0- |
| 0-000-81-101<br>(07/13/81) | 1 | 4,518 | - | - | - | $ 4,518 | -0- | - | - | -0- |
| 0-000-81-112<br>(07/28/81) | 4 | To Be Deter. | - | - | 460 | 3,085 | -0- | - | 460 | -0- |
|  | 5 | 158,476 | - | - | 20,377 | 893 | $ 137,206 | - | 20,377 | - |
| 3-637-81-13<br>(07/29/81) | 3 | To Be Deter. | - | - | 10,050 | - | -0- | - | 10,050 | -0- |
| 0-000-81-114<br>(08/06/81) | 1 | 16,934 | - | - | - | - | 16,934 | - | - | - |
|  | 2 | 1,039,110 | - | - | - | - | 1,039,110 | - | - | - |
| 5-386-81-14<br>(08/11/81) | 1 | 357,071 | - | - | - | - | 357,071 | - | - | - |
| 3-664-81-14<br>(08/14/81) | 1 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 5-386-81-15<br>(08/17/81) | 1 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 3 | To Be Deter. | - | - | - | 38,095 | 5,237 | - | - | - |
| 0-000-81-121<br>(08/25/81) | 1 | 287 | - | - | 287 | - | -0- | - | 287 | -0- |
| 0-000-81-123<br>(08/25/81) | 1 | 105 | $ 105 | - | - | - | -0- | - | 105 | -0- |
| 0-000-81-128<br>(09/04/81) | 1 | 32,179 | - | - | 13,218 | 18,961 | - | - | 5,616 | 7,602 |
| 0-000-81-130<br>(09/08/81) | 1 | 13,182 | - | - | - | 9,767 | 3,415 | - | - | - |
| 0-000-81-132<br>(09/10/81) | 1 | 2,440 | 2,439 | 1 | - | - | -0- | - | 2,439 | -0- |

|  |  |  | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| 1. **RECOVERIES** (Cont'd) |  |  |  |  |  |  |  |  |  |  |
| 0-688-81-139 (09/24/81) | 2 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 3 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-81-140 (09/25/81) | 1 | $ 26,237 | - | - | $ 26,237 | - | -0- | - | $ 26,237 | -0- |
| 0-000-81-141 (09/29/81) | 4 | 5,048 | - | - | - | $ 5,048 | -0- | - | - | -0- |
| Subtotal, Recs. in Excess of 6 Months Old |  | $24,907,465 | $7,187,000 | $1,931,823 | $ 2,162,674 | $1,336,469 | $13,773,237 | $1,151,742 | $1,208,363 | $ 6,994,603 |
| 0-489-82-3 (10/21/81) | 1 | 5,943 | - | - | - | 5,943 | -0- | - | - | -0- |
| 2-493-82-1 (10/22/81) | 1 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 2 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 3 | To Be Deter. | - | - | - | Not Sustained | -0- | - | - | -0- |
|  | 4 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 5-271-82-2 (10/22/81) | 2 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 1-525-82-1 (10/23/81) | 6 | 12,211 | - | - | - | 12,211 | -0- | - | - | -0- |
| 0-625-82-9 (10/30/81) | 1 | 18,000 | - | - | 14,692 | 3,308 | -0- | - | - | 14,692 |
|  | 3 | 14,961 | - | - | - | - | 14,961 | - | - | - |
|  | 4 | 8,430 | - | - | - | - | 8,430 | - | - | - |
| 0-000-82-8 (11/03/81) | 1 | 524 | - | - | 524 | - | -0- | - | 524 | -0- |

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION | | | | | COLLECTIONS/PAYMENTS/DEOBLIGATIONS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Previous Period | | This Period | | | | | |
| | | | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| 1. **RECOVERIES** (Cont'd) | | | | | | | | | | |
| 2-493-82-2<br>(11/13/81) | 2 | To Be Deter. | - | - | - | Not Sustained | -0- | - | - | -0- |
| 0-000-82-11<br>(11/05/81) | 1 | $ 54,618 | - | - | - | - | $ 54,618 | - | - | - |
| 0-000-82-13<br>(11/10/81) | 4 | 17,634 | - | - | - | - | 17,634 | - | - | - |
| 6-263-82-2<br>(11/29/81) | 2 | 71,429 | - | - | - | - | 71,429 | - | - | - |
| | 3 | 400,000 | - | - | - | - | 400,000 | - | - | - |
| | 6 | 65,000 | - | - | - | - | 65,000 | - | - | - |
| 5-388-82-4<br>(11/29/81) | 6 | 4,683,000 | - | - | 4,683,000 | - | -0- | - | - | $4,683,000 |
| 0-000-82-17<br>(11/30/81) | 1 | 177,014 | - | - | - | - | 177,014 | - | - | - |
| 1-520-82-3<br>(11/30/81) | 3 | 4,549 | - | - | 4,549 | - | -0- | - | 4,549 | -0- |
| 1-519-82-4<br>(12/17/81) | 4 | 872,000 | - | - | c/ | c/ | c/ | - | c/ | c/ |
| 0-000-82-24<br>(12/29/81) | 1 | 34,470 | - | - | - | - | 34,470 | - | - | - |
| 0-000-82-25<br>(01/05/82) | 1 | 344,166 | - | - | - | - | 344,166 | - | - | - |
| 0-000-82-26<br>(01/05/82) | 1 | 2,013 | - | - | - | - | 2,013 | - | - | - |
| 2-493-82-3<br>(01/13/82) | 6 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-82-29<br>(01/18/82) | 1 | 280,731 | - | - | - | - | 280,731 | - | - | - |

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c/ Mission reported that adjustment was made on July 17, 1981, but did not specify the amount.

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION | | | | | COLLECTIONS/PAYMENTS/DEOBLICATIONS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Previous Period | | This Period | | | | | |
| | | | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES (Cont'd) | | | | | | | | | | |
| 6-263-82-4 (01/20/82) | 1 | $ 64,034 | - | - | - | - | $ 64,034 | - | - | - |
| | 2 | 9,499 | - | - | - | - | 9,499 | - | - | - |
| 0-000-82-30 (01/25/82) | 1 | 18,754 | - | - | - | - | 18,754 | - | - | - |
| 0-000-82-38 (01/27/82) | 1 | 329,962 | - | - | - | - | 329,962 | - | - | - |
| 3-615-82-8 (01/29/82) | 2 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-82-41 (02/01/82) | 1 | 40,674 | - | - | - | - | 40,674 | - | - | - |
| 0-000-82-42 (02/08/82)* | 1 | 5,582 | - | - | $ 5,044 | - | 538 | - | $ 5,044 | - |
| 0-000-82-46 (02/22/82) | 5 | 3,051 | - | - | - | - | 3,051 | - | - | - |
| 0-608-82-47 (02/22/82) | 5 | 1,818 | - | - | - | - | 1,818 | - | - | - |
| 0-000-82-48 (02/24/82) | 1 | 21,245 | - | - | - | - | 21,245 | - | - | - |
| 0-000-82-49 (02/26/82) | 1 | 7,164 | - | - | - | - | 7,164 | - | - | - |
| 1-525-82-7 (03/03/82) | 5 | 223,306 | - | - | - | - | 223,306 | - | - | - |
| | 6 | 80,638 | - | - | 63,191 | - | 17,447 | - | 63,191 | -0- |
| | 7 | 495,463 | - | - | - | - | 495,463 | - | - | - |
| 0-000-82-52 (03/09/82) | 1 | 294,063 | - | - | - | - | 294,063 | - | - | - |

|  |  |  | AGENCY DETERMINATION |  |  |  |  | COLLECTIONS/PAYMENTS/DEOBLIGATIONS |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  | Previous Period |  | This Period |  |  |  |  |  |
| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| I. RECOVERIES (Cont'd) |  |  |  |  |  |  |  |  |  |  |
| 2-498-82-6 (03/11/82) | 6 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 7 | $ 1,308 | - | - | - | - | $ 1,308 | - | - | - |
|  | 8 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
|  | 9 | 10,000 | - | - | - | - | 10,000 | - | - | - |
|  | 11 | 1,620 | - | - | - | - | 1,620 | - | - | - |
|  | 12 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 0-000-82-53 (03/12/82) | 1 | 476,167 | - | - | - | - | 476,167 | - | - | - |
| 0-000-82-56 (03/19/82) | 1 | 304 | - | - | - | - | 304 | - | - | - |
| 0-000-82-57 (03/19/82) | 1 | 208 | - | - | - | - | 208 | - | - | - |
| 0-000-82-58 (03/19/82) | 1 | 340 | - | - | - | - | 340 | - | - | - |
| 0-000-82-59 (03/24/82) | 1 | 8,213 | - | - | - | - | 8,213 | - | - | - |
| 0-669-82-60 (03/25/82) | 2 | 14,364 | - | - | - | - | 14,364 | - | - | - |
| 0-000-82-61 (03/29/82) | 1 | 7,450 | - | - | $ 7,450 | - | -0- | - | $ 7,450 | -0- |
| 2-493-82-8 (03/30/82) | 2 | 2,375 | - | - | - | - | 2,375 | - | - | - |
| DCAA 6171-2B160278-2-353 (02/04/82) | - | 41,063 | - | - | - | - | 41,063 | - | - | - |
| RIG/A/W Unpublished Reports | - | To Be Deter. | - | - | $ 763,795 | - | -0- | - | $ 763,795 | -0- |
|  | - | To Be Deter. | - | - | 144,018 | - | -0- | - | 142,076 | $ 1,942 |

| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | AGENCY DETERMINATION: Previous Period: Sustained | Previous Period: Not Sustained | This Period: Sustained | This Period: Not Sustained | Awaiting Determination | COLLECTIONS/PAYMENTS/DEOBLIGATIONS: Previous Period | This Period | Agency Determination Outstanding |
|---|---|---|---|---|---|---|---|---|---|---|
| I. RECOVERIES | (Cont'd) | | | | | | | | | |
| Subtotal, Recs. Open 6 Months Or Less | | $ 9,225,358 | -0- | -0- | $ 5,686,263 | $ 21,462 | $ 3,553,446 | -0- | $ 986,889 | $ 4,699,634 |
| Total Recoveries | | $34,132,823 | $7,187,000 | $1,931,823 | $ 7,848,937 | $1,357,931 | $17,326,683 | $1,151,742 | $2,195,252 | $11,694,237 |
| II PAYMENTS DUE CONTRACTORS | | | | | | | | | | |
| 0-000-81-49 (03/04/81) | 1 | $ 15,577 | $ 15,577 | - | - | - | -0- | $ 10,005 | $ 5,572 | -0- |
| 0-000-81-55 (03/13/81) | 1 | 97,051 | 97,051 | - | - | - | -0- | 74,540 | 22,511 | -0- |
| 0-000-81-115- (08/06/81) | 1 | 1,130 | - | - | - | - | $ 1,130 | - | - | - |
| 0-000-82-4 (10/27/81) | 1 | 28,690 | - | - | $ 28,690 | - | -0- | - | 28,690 | -0- |
| 0-000-82-45 (02/22/82) | 1 | 61,821 | - | - | - | - | 61,821 | - | - | - |
| Total Payments Due Contractors | | $ 204,269 | $ 112,628 | - | $ 28,690 | - | $ 62,951 | $ 84,545 | $ 56,773 | -0- |
| III. DEOBLIGATIONS/REDUCTIONS OR RETURN OF ADVANCES | | | | | | | | | | |
| 0-000-81-67 (04/28/81) | 2 | To Be Deter. | - | - | $ 177,779 | - | -0- | - | $ 177,779 | -0- |
| 2-492-81-12 (04/30/81) | 12 | ( NLT ) $(1,500,000) | - | - | - | - | ( NLT ) $(1,500,000) | - | - | - |

| | | | AGENCY DETERMINATION | | | | | COLLECTIONS/PAYMENTS/DEOBLIGATIONS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Previous Period | | This Period | | | | | |
| Audit Report No. (Date Issued) | Rec. No. | Amount of Monetary Finding | Sustained | Not Sustained | Sustained | Not Sustained | Awaiting Determination | Previous Period | This Period | Agency Determination Outstanding |
| III. DEOBLIGATIONS/REDUCTIONS OR RETURN OF ADVANCES (Cont'd) | | | | | | | | | | |
| 3-663-81-11 (06/19/81) | 9 | 172,000 | $ 177,892 | - | - | - | -0- | - | 177,892 | -0- |
| 5-388-82-4 (11/29/81) | 2 | 4,580,000 | - | - | $ 4,580,000 | - | -0- | - | - | $4,580,000 |
| 1-520-82-3 (11/30/82) | 4 | 55,683 | - | - | 55,683 | - | -0- | - | - | 55,683 |
| | 5 | To Be Deter. | - | - | - | - | To Be Deter. | - | - | - |
| 3-615-82-7 (01/26/82) | 5 | 4,000,000 | - | - | - | - | 4,000,000 | - | - | - |
| 0-608-82-47 (02/22/82) | - | 2,100,000 | - | - | 2,100,000 | - | -0- | - | 2,100,000 | -0- |
| 0-000-82-60 (03/25/82) | 1 | 1,000,000 | - | - | - | - | 1,000,000 | - | - | - |
| RIG/A/W Unpublished Reports | - | 4,236,342 | - | - | 4,236,342 | - | -0- | - | 4,236,342 | -0- |
| Total Deobligations/ Reductions or Return | | $17,644,025 | $ 177,892 | - | $11,149,804 | - | $6,500,000 | - | $6,692,013 | $4,635,683 |

TABLE 1. RECOMMENDATIONS OPEN IN EXCESS OF SIX MONTHS AS OF MARCH 31, 1982*
(By Bureau/Office and Resolution Status)

| Bureau/ Office | Total Recs. Open in Excess of 6 Months as of 3/31/82 | Recs. Resolved as of 3/31/82 | Recs. Unresolved as of 3/31/82 |
|---|---|---|---|
| AFR | 27 | 7 | 20 |
| ASIA | 18 | 16 | 2 |
| FVA | 2 | 1 | 1 |
| LAC | 5 | 3 | 2 |
| MGT | 40 | 23 | 17 |
| NE | 8 | 4 | 4 |
| OFDA | 2 | - | 2 |
| PPC | 2 | - | 2 |
| S&T | 3 | 2 | 1 |
| FVA & AFR | 1 | - | 1 |
| FVA & ASIA | 8 | - | 8 |
| FVA & LAC | 15 | 14 | 1 |
| GC & NE | 1 | - | 1 |
| GC & MGT | 1 | - | 1 |
| MGT & IG | 2 | 2 | - |
| MGT, GC & IG | 1 | - | 1 |
| PRE & AFR | 6 | - | 6 |
| PRE & NE | 7 | 1 | 6 |
| Agency Total | 149 | 73 | 76 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

TABLE 2. RECOMMENDATIONS OPEN IN EXCESS OF SIX MONTHS AND UNRESOLVED AS OF MARCH 31, 1982*
(By Bureau/Office and Status With Regard to P.L. 96-304 Requirements)

| Bureau/ Office | Total Recs. Open in Excess of 6 Months and Unresolved as of 3/31/82 | Recs. in Violation of P.L. 96-304 Req. for Resolution by 9/30/81 | Recs. in Violation of P.L. 96-304 Req. for Resolution of Monetary Recs. Within 6 Months | Recs. Not Subject to P.L. 96-304 Requirements |
|---|---|---|---|---|
| AFR | 20 | 3 | 5 | 12 |
| ASIA | 2 | - | 2 | - |
| FVA | 1 | - | - | 1 |
| LAC | 2 | - | - | 2 |
| MGT | 17 | 2 | 3 | 12 |
| NE | 4 | - | 3 | 1 |
| OFDA | 2 | - | - | 2 |
| PPC | 2 | 2 | - | - |
| S&T | 1 | - | 1 | - |
| FVA & AFR | 1 | - | 1 | - |
| FVA & ASIA | 8 | 1 | 2 | 5 |
| FVA & LAC | 1 | - | - | 1 |
| GC & NE | 1 | - | - | 1 |
| GC & MGT | 1 | - | - | 1 |
| MGT, GC & IG | 1 | - | - | 1 |
| PRE & AFR | 6 | 6 | - | - |
| PRE & NE | 6 | - | - | 6 |
| Agency Total | 76 | 14 | 17 | 45 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

TABLE 3. RECOMMENDATIONS OPEN IN EXCESS OF SIX MONTHS DURING THE PERIOD FROM OCTOBER 1, 1981 THROUGH MARCH 31, 1982*

| Bureau/ Office | Recs. Open 6 Mos. As of 10/1/81 | (Plus) Recs. Becoming 6 Mos. Old From 10/1/81-3/31/82 | (Plus) Recs. Reopened From 10/1/81-3/31/82 | Open Recs. Where Action Office Changed | Total Recs. Open Over 6 Mos. During Period | (Less) Recs. Over 6 Mos. Old Closed During Period | Recs. Open Over 6 Mos. As of 3/31/82 |
|---|---|---|---|---|---|---|---|
| AFR | 31 | 28 | 3 | - 1 | 61 | 34 | 27 |
| ASIA | 16 | 35 | - | - 8 | 43 | 25 | 18 |
| FVA | 2 | 2 | - | - | 4 | 2 | 2 |
| GC | 2 | 1 | - | - 1 | 2 | 2 | - |
| IG | 1 | - | - | - | 1 | 1 | - |
| LAC | 18 | 24 | 1 | -15 | 28 | 23 | 5 |
| MGT | 39 | 31 | - | + 1 | 71 | 31 | 40 |
| NE | 10 | 8 | 3 | + 1 | 22 | 14 | 8 |
| OFDA | 3 | 2 | - | - | 5 | 3 | 2 |
| PPC | 2 | - | - | - | 2 | - | 2 |
| S&T | - | 6 | - | + 1 | 7 | 4 | 3 |
| ASIA & S&T | - | 1 | - | - 1 | - | - | - |
| AFR & NE | 1 | - | - | - 1 | - | - | - |
| FVA & AFR | - | - | - | + 1 | 1 | - | 1 |
| FVA & ASIA | - | - | - | + 8 | 8 | - | 8 |
| FVA & LAC | - | - | - | +15 | 15 | - | 15 |
| GC & NE | - | - | - | + 1 | 1 | - | 1 |
| GC & MGT | 1 | - | - | - | 1 | - | 1 |
| MGT & IG | 4 | - | - | - | 4 | 2 | 2 |
| MGT & S&T | - | 1 | - | - | 1 | 1 | - |
| MGT, GC & IG | 1 | - | - | - | 1 | - | 1 |
| PRE & AFR | - | - | 6 | - | 6 | - | 6 |
| PRE & NE | - | 9 | - | - | 9 | 2 | 7 |
| A/AID | - | 1 | - | - 1 | - | - | - |
| Agency Total | 131 | 149 | 13 | -0- | 293 | 144 | 149 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

### TABLE 4. TOTAL RECOMMENDATIONS OPEN DURING PERIOD FROM OCTOBER 1, 1981 THROUGH MARCH 31, 1982*

| Bureau/ Office | Open Recs. As of 9/30/81 | (Plus) New Recs. During Period | (Plus) Reopened Recs. | Open Recs. Where Action Office Changed | Total Open Recs. During Period | (Less) Recs. Closed During Period | Open Recs. As of 3/31/82 |
|---|---|---|---|---|---|---|---|
| AFR | 92 | 41 | 3 | - 1 | 135 | 73 | 62 |
| ASIA | 67 | 54 | - | - 8 | 113 | 59 | 54 |
| FVA | 6 | 9 | - | - | 15 | 10 | 5 |
| GC | 4 | 1 | - | - 1 | 4 | 4 | - |
| IG | 1 | 1 | - | - | 2 | 2 | - |
| LAC | 54 | 79 | 1 | -15 | 119 | 41 | 78 |
| MGT | 91 | 63 | - | + 1 | 155 | 76 | 79 |
| NE | 32 | 33 | 3 | + 1 | 69 | 36 | 33 |
| OFDA | 12 | - | - | - | 12 | 10 | 2 |
| PPC | 3 | 1 | - | - | 4 | 1 | 3 |
| S&T | 7 | 4 | - | + 1 | 12 | 5 | 7 |
| ASIA & MGT | - | 1 | - | - | 1 | 1 | - |
| ASIA & S&T | 1 | - | - | - 1 | - | - | - |
| AFR & NE | 1 | - | - | - 1 | - | - | - |
| FVA & AFR | - | - | - | + 1 | 1 | - | 1 |
| FVA & ASIA | - | - | - | + 8 | 8 | - | 8 |
| FVA & LAC | - | - | - | +15 | 15 | - | 15 |
| FVA & MGT | - | 1 | - | - | 1 | 1 | - |
| GC & NE | - | - | - | + 1 | 1 | - | 1 |
| GC & MGT | 2 | 1 | - | - | 3 | 1 | 2 |
| MGT & IG | 4 | - | - | - | 4 | 2 | 2 |
| MGT & S&T | 1 | 1 | - | - | 2 | 1 | 1 |
| MGT, GC & IG | 1 | - | - | - | 1 | - | 1 |
| MGT & NE | - | 2 | - | - | 2 | - | 2 |
| PRE & AFR | - | - | 6 | - | 6 | - | 6 |
| PRE & NE | 9 | - | - | - | 9 | 2 | 7 |
| A/AID | 1 | - | - | - 1 | - | - | - |
| Agency Total | 389 | 292 | 13 | -0- | 694 | 325 | 369 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

TABLE 5. TOTAL RECOMMENDATIONS BY LENGTH OF TIME OPEN
AS OF MARCH 31, 1982*

| Bureau/ Office | Recs. Open 0-3 Months | Recs. Open 3-6 Months | Recs. Open 6-9 Months | Recs. Open 9-12 Months | Recs. Open Over 12 Months | Total Open Recs. |
|---|---|---|---|---|---|---|
| AFR | 27 | 8 | 16 | 1 | 10 | 62 |
| ASIA | 23 | 13 | 2 | 15 | 1 | 54 |
| FVA | 2 | 1 | – | 1 | 1 | 5 |
| LAC | 54 | 19 | – | 1 | 4 | 78 |
| MGT | 27 | 12 | 5 | 7 | 28 | 79 |
| NE | 8 | 17 | 1 | 3 | 4 | 33 |
| OFDA | – | – | 2 | – | – | 2 |
| PPC | 1 | – | – | – | 2 | 3 |
| S&T | 4 | – | – | 3 | – | 7 |
| FVA & AFR | – | – | – | 1 | – | 1 |
| FVA & ASIA | – | – | 2 | – | 6 | 8 |
| FVA & LAC | – | – | – | 15 | – | 15 |
| GC & NE | – | – | – | – | 1 | 1 |
| GC & MGT | – | 1 | – | 1 | – | 2 |
| MGT & IG | – | – | – | – | 2 | 2 |
| MGT & S&T | 1 | – | – | – | – | 1 |
| MGT, GC & IG | – | – | – | – | 1 | 1 |
| MGT & NE | 1 | 1 | – | – | – | 2 |
| PRE & AFR | – | – | – | – | 6 | 6 |
| PRE & NE | – | – | – | 7 | – | 7 |
| Agency Total | 148 | 72 | 28 | 55 | 66 | 369 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

TABLE 6. TOTAL RECOMMENDATIONS BY LENGTH OF TIME OPEN PRIOR TO CLOSING, FROM OCTOBER 1, 1981, THROUGH MARCH 31, 1982*

| Bureau/ Office | Recs. Closed at 0-3 Months | Recs. Closed at 3-6 Months | Recs. Closed at 6-9 Months | Recs. Closed at 9-12 Months | Recs. Closed at Over 12 Months | Total Recs. Closed |
|---|---|---|---|---|---|---|
| AFR | 6 | 33 | 19 | 4 | 11 | 73 |
| ASIA | 17 | 17 | 8 | 12 | 5 | 59 |
| FVA | 6 | 2 | 1 | 1 | - | 10 |
| GC | 1 | 1 | 2 | - | - | 4 |
| IG | 1 | - | - | - | 1 | 2 |
| LAC | 11 | 7 | 2 | 12 | 9 | 41 |
| MGT | 21 | 24 | 21 | 4 | 6 | 76 |
| NE | 5 | 17 | 2 | - | 12 | 36 |
| OFDA | - | 7 | - | 1 | 2 | 10 |
| PPC | 1 | - | - | - | - | 1 |
| S&T | - | 1 | 4 | - | - | 5 |
| ASIA & MGT | 1 | - | - | - | - | 1 |
| FVA & MGT | 1 | - | - | - | - | 1 |
| GC & MGT | - | 1 | - | - | - | 1 |
| MGT & IG | - | - | - | 1 | 1 | 2 |
| MGT & S&T | - | - | 1 | - | - | 1 |
| PRE & NE | - | - | 2 | - | - | 2 |
| Agency Total | 71 | 110 | 62 | 35 | 47 | 325 |

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*Reflects IG and joint State/AID Joint Administrative Office recommendations, but not General Accounting Office recommendations.

## HOST COUNTRY CONTRACTING POLICY

Senator **Kasten**. I know that you are not a policymaker, but I want to ask you at least one policy-oriented question simply because you have had an opportunity for a rather unique look at the operation of this Agency and also a look at the host country contracting.

From the standpoint of your responsibility to watch over the expenditure of public funds, would you advise a withdrawal from the present application of the host country contracting policy? And if not, what do you consider its vulnerabilities, and what actions are open to the Agency, in your judgment, to correct these vulnerabilities or deficiencies?

You mentioned this briefly in your prepared remarks. I would like you to be a little more specific. First of all, would you advise that we withdraw from the present application of the host country contracting policy and, if not, what steps can we take that will be somewhere in between that and a rather drastic alternative?

Mr. **Beckington**. Mr. Chairman, I am a little uncomfortable with this question because I am not a policymaking officer of the Agency, but if it were my judgment to make, no, I would not recommend discontinuance of the host country contracting policy approach simply because I don't think that we in the Agency would be able to take up the slack. We simply are not a large enough organization, and we do not have enough people in place to do that.

Moving to the second part of that question, what can we do or should we do to tighten up this process, it is my belief that we have to be much more rigorous in our use of this policy, in our assessment of a host country's ability to do its part of the process.

You must remember, I think, that in reality we are always dealing, for example, with a ministry of agriculture or public works or health or something. The policy document as it is written requires us to make an assessment of their skill levels, the ability of that ministry or a portion of that ministry to perform, to design, to monitor, to control, to account for the funding, to do the auditing and so on.

I think too frequently we make those judgments too easily. We are sometimes overoptimistic at the mission level, and the bureau level in Washington when they get involved, over the ability of the host country's elements to perform those tasks. I would say that we must be more rigorous and more disciplined in making those judgments.

If there is doubt, I think the benefit of the doubt probably should come in our direction rather than in the direction of the host country.

Now that kind of approach would probably cut the number of these host country contracts on a worldwide basis at least for a period of time. We must be prepared, I think, in the process to lend additional help to a host country, a government ministry, by way of training, by way of support, by way of handholding, if you will, in those cases where we have any real reason, as we so frequently do to doubt their ability to carry their part of this process forward.

Senator **Kasten**. I do not know the political problems involved. I do not know how difficult it is for the Agency to make those kinds of assessments, but a common threat it seems to me, if I understand what you are saying and what you said in your statement, is basically overoptimism, and you found this with reference to host country capabilities.

Is this really overoptimism, or do you think that there is obligation of these funds despite misgivings?

In other words, is there sufficient pressure to obligate funds, that this overrides considerations of the actual capacity? Is the pressure on us to get the contracts out?

Mr. BECKINGTON. I think in all candor, Mr. Chairman, there is an element of that present from time to time, yes, sir.

Senator KASTEN. It is hard to judge, and I am also certain it will be difficult. We might get more involved in it. It is hard to judge in terms of what political considerations are involved in saying this ministry of agriculture is not capable of such and such. That obviously has to be done very carefully.

Mr. BECKINGTON. I think so, and I think that is a very real part of the problem; we are dealing with sovereign nations.

### FLEXIBILITY IN LOANS TO EGYPT

Senator KASTEN. You heard the questions addressed to the previous witness about the possibilities in Egypt and in other countries in terms of giving them more flexibility, not necessarily going project by project, maybe area by area, or sector by sector.

Mr. BECKINGTON. Mr. Chairman, I do not feel competent to address that question.

### PUBLIC LAW 480 PROGRAM

Senator KASTEN. Your statement reflects continuing Agency problems in the administration and also the conduct of a Public Law 480 title II program.

Can you identify any underlying cause or causes which explain this continuing situation?

There are basic flaws that we simply have to address.

Mr. BECKINGTON. Again, Mr. Chairman, I think it is our day-to-day oversight and that of the PVO's who act as our Government's agents in the conduct of the great majority of these programs. I don't have any illusions about the difficulty of these programs and the circumstances under which many of them go forward.

But I am also convinced that we are probably as expert as any other organization in the world in handling these programs. We have experienced these pitfalls and problems again and again. I think we can both, we as the Agency and the PVO's who work with us, be more forehanded and more careful and reduce the incidence of problems that we continually find in these programs.

Senator KASTEN. There is not one basic underlying cause?

Mr. BECKINGTON. No, sir, I don't think there is one basic underlying cause. I think first of all everyone believes that the food commodities will continue to move, no matter how difficult the problem. At least many people feel that way.

I think that on the part of AID missions we sometimes tend to back away from these programs on the theory they are being handled for us by somebody else; namely, the executing PVO in the country, and a hard-pressed AID mission will tend to back away from this and focus on other, for them, more immediate problems.

I think that we frequently find understaffing situations in the executing PVO's. I sometimes think that the sheer magnitude of the problems of distribution, of selection of recipients, tends to overcome the people who are responsible for the day-to-day conduct of these programs.

### AUDITS IN TANZANIA

Senator KASTEN. In your statement you talked about various reports that you have issued in the field. What are the details of the case you cite where the African country had six audits in 6 years by different auditing groups for the same problems?

What country is that, and can you give me more information on it? Who should have been responsible for correcting these problems? Are these problems with the host country, with the PVOs, or with our own Agency?

Mr. BECKINGTON. The country involved, sir, is Tanzania. The PVO, as I recall, is the Catholic Relief Services. The audits were conducted between 1975 and 1980. They found a constant repetition of a lack of accountability and control for the food commodities moving through the system from the port of arrival point on through to the distribution points.

They found in general that the intended recipients of the program were not, in fact, being adequately served and there was diversion, waste and loss of the food stuffs in the movement from the port of arrival to the many distribution centers throughout various parts of the country.

There was as I recall, little or no effort on the part of the PVO concerned or the AID mission to present claims for and attempt to recover the value of the losses, which might not have been possible in that case, in which case AID ordinarily would have had a claim against the sponsoring PVO.

In my judgment in response to the latter part of your question I think the responsibility must rest primarily with AID. We are the ones who are basically responsible for that program once the food commodities leave the United States. We execute them through our own chosen PVO agents, and I think we are and should be responsible when problems begin to develop to work very closely with the PVO concerned and do what we can do to remove those problems and conditions as much as possible.

If more support is needed from us, for example, in a case of that kind, for the PVO I think we should be ready to give it. I did not find in that case and do not today find in that case an adequate degree of AID oversight on the scene.

Senator KASTEN. Were there ever any discussions of switching private voluntary organizations or of dealing with other people, or are there indications of letters or conversations stating that if this continues under these circumstances we are going to make a change, or if this continues under these circumstances the quantity of Public Law 480 food stuffs will be lower?

Mr. BECKINGTON. I am not aware of any such effort as I sit here this afternoon, Mr. Chairman. But in the interest of being absolutely accurate I would like to take that question and respond further for the record if I may.

Senator **Kasten**. Certainly.

[The information follows:]

### Oversight of Public Law 480 Title II to Tanzania

Mr. **Beckington**. In further answer to your question, Mr. Chairman, the responsible AID Bureau has provided me with the following additional information:

"Serious deficiencies in the Catholic Relief Services Tanzania program were noted in a series of audits conducted by the IG, GAO and CRS during the period from 1975 to 1980. Efforts to correct these deficiencies were made over the years, however, with only minimal success until this year. While these efforts were ongoing the program was reduced over the years from a high of 10,912 MT in fiscal year 1976 to its present level of 4,373 MT. Efforts to switch the program to another cooperating sponsor were unsuccessful. Continuation of the current program is based on CRS's stated commitment to correction of past deficiences. It appears progress is being made. However, A.I.D. will continue to monitor the program closely and if the management improvements are not lasting will again consider further reduction or termination of the program."

### COMMODITY LOSSES IN BURUNDI

Senator **Kasten**. You also talked about an African country where you identified losses of commodities valued at several hundred thousand dollars.

Who is following that? What country is that?

Mr. **Beckington**. That was a very small African country, Burundi. Let me refer to my notes, if I may, Mr. Chairman, to refresh my memory.

That was Burundi. The report was issued about a year and a half ago. The implementing PVO, again by chance, sir, was Catholic Relief Services, and we ran into a very difficult situation involving claims for port and inland transportation losses that simply have been ignored and not pursued over a period of time throughout 1978 and 1979.

We have recovered some of that loss at this point in time, and the Agency is still negotiating with CRS and a number of shipping companies with respect to additional collections of those losses.

Again, it was a situation which neither the Agency nor the PVO in this case had followed up smartly and closely on known losses.

Senator **Kasten**. In these cases, these two countries, was the AID mission director held responsible in any way?

Mr. **Beckington**. Not to my knowledge, Mr. Chairman. Again, I think in the interest of accuracy I would want to pursue that question further.

[The information follows:]

### Responsibility of AID Mission Directors

Further inquiry on this point has failed to reveal any additional information.

### PERFORMANCE PROBLEMS IN AID-SUPPORTED PVO PROJECTS

Senator **Kasten**. In these last couple questions and also in your statement you talk about performance problems associated with a number of AID-supported, PVO-directed projects.

Are there basic problems that we should be paying attention to? Can you give the committee some kind of assessment of the reasons why these kinds of problems occur with the PVO's?

Mr. BECKINGTON. Are you still speaking, sir, of the Public Law 480?

Senator KASTEN. PVO's in general.

Mr. BECKINGTON. Once again, Mr. Chairman, I think there are a number of pressures that operate on the Agency as best I can tell.

First, I am aware and you are aware, of course, of the policy statement of the Congress which tells the Agency—it is imbedded in the Foreign Assistance Act—which tells the Agency to make full use of the varied skills and talents of the PVO community. I think the Agency is keenly conscious of that, and I am sure the PVO's are keenly aware of that. This I think acts to some extent as a pressure on the part of the Agency to utilize PVO's, and in the process once again I have the clear impression that we are not as disciplined and as rigorous in our assessment at the planning stage, the design stage, of the ability, capability, or talents of some of the PVO's that we are looking at and considering supporting in one or more of any number of types of projects across the range of disciplines in which the foreign aid program operates.

I think we have to be more careful in assessing the management skills of PVO's, their financial stability, their accounting systems, their expertise in the particular area in which they and we are thinking of using them, and again in case of doubt I think the doubt ought to be resolved in favor of AID or the Government until such time as that PVO has brought itself up to speed, if you will, in any specific area or areas where there is a logical and rational reason for concern.

Senator KASTEN. That response is very similar to the question I asked 20 minutes ago in terms of evaluating host country capability. What you are suggesting is that in both of these cases we are quite sure, and we are not being quite specific enough. Then we may be overoptimistic in terms of the ability of the host country, on the one hand, or the PVO, on the other, to carry out and deliver in a businesslike and accurate way.

Is that a fair assessment?

Mr. BECKINGTON. Yes, sir, that is.

Senator KASTEN. One of the problems that was cited in the GAO report of the activity of bureaus was the finding that you were understaffed. First of all, do you agree with that assessement?

As I understand it, your needs are roughly double what you have right now, at least according to that one analysis.

Mr. BECKINGTON. You are quoting accurately, sir, from the draft GAO report on that particular point. I do not know, but I would assume that probably that will remain in the report as published which I have been told will happen in the next 2 or 3 weeks probably.

I do not disagree with that finding. I think we are understaffed in the way in which the GAO has reported and described.

I have to make it very clear to you, though, Mr. Chairman, that having said that I am not in a position to ask, urge, or solicit any additional staff.

Senator KASTEN. OMB is looking over all of our shoulders.

Mr. BECKINGTON. If I were to do so or if my comment were to be so construed, I would be departing from the President's program, of course.

I should like to say, however, and I can say this in all truthfulness, the Administrator of the Agency and his senior associates do rely, I think very heavily, on the IG function, not only the audit, but the investigative responsibilities which we have. I think within the constraints imposed upon them they have made a very special effort to keep the IG function as adequately staffed as they possibly can. For that I am thankful, from my standpoint.

Senator KASTEN. From our point of view there may be the need for additional cuts overall in some of these programs.

Also we might need some shifting within different categories. So, I appreciate your agreement with that assessment. The previous witness talked about U.S. research facilities, specifically universities.

Drawing upon your experience, do you believe that funds going to U.S. research institutions and universities have been an effective tool for implementing the foreign assistance program?

Mr. BECKINGTON. Mr. Chairman, I don't consider myself qualified to answer that question. We have done very little work in that area in recent years, on my watch, as a matter of fact. I am not sure from my own records and my own reviews that I can go back and provide you with an answer for the record.

### AMERICAN AID PROGRAMS

Senator KASTEN. I was interested that in your prepared statement you mentioned a concern that the committee has some comments about whether or not these programs were in fact American aid programs, that they were being identified as such, and that they were being known as such within the communities.

Was that a question that we were able to interest you in or is that a specific part of your mandate?

Mr. BECKINGTON. This is something you have not just interested me in, in the sense you have raised it, Mr. Chairman. We have been following this for a long time. As I said in my statement, it is a problem that crops up with some frequency, and it seems to be a very difficult and stubborn problem to deal with in many cases.

In some countries our aid missions encounter conditions in which in their judgement it is perhaps best not to publicize certain aspects of the American aid program. The political circumstances are such that in their judgment it would be counterproductive. I am not in the business of second-guessing those judgments when they arise.

In other instances it is simply a failure or lack of our normal insistence that a degree of visibility be present. I know that the Congress traditionally and routinely has expected that that kind of credit, quiet but nevertheless clearcut be available. We just sometimes don't do it very well.

Usually, Mr. Chairman, when we point it out it is corrected. Occasionally it is not. In those cases the mission may feel that they have a valid reason for not pursuing it further.

Senator **Kasten**. I am sure you would agree with me that under the political circumstances in which we are making severe cutbacks in domestic programs, in which we are under a big budget crunch, that the political support for foreign assistance, particularly economic assistance, is very, very tenuous. The degree to which the American taxpayers or my constituents in Milwaukee, or Green Bay, or Waukesha, Wis., understand there is a relationship, we have a better chance of continuing to fund these programs.

If these people look at it as simply money or grain, or whatever being dumped out with a lack of accountability, lack of responsibility, and sometimes lack of thanks, it will be more difficult to pass a foreign aid bill as we did last year.

Mr. **Beckington**. Based upon my observations, Mr. Chairman, I would agree completely.

### AID PROCUREMENT PRACTICES

Senator **Kasten**. One of your reports detailed the rather astounding practices of AID procurement whereby purchasing agents simply obtain their fee through a percentage add-on over the cost of the commodities. This clearly is not an incentive to obtain the lowest bid. In fact, this could have the effect of costing the program tens of millions of dollars.

What has been done to correct this?

Mr. **Beckington**. It has been too soon, Mr. Chairman, for positive and definite action to have actually occurred. In fact, that report has elicited a great deal of attention within the Agency, and I think an organized effort is definitely underway to correct the situation wherever it is possible to do so.

That situation in part arises out of the host country contracting system where countries that are not able or equipped to do some of their own purchasing under a host country contract or grant engage others to do it for them.

Senator **Kasten**. You are aware, I think, of the recommendations that our subcommittee made concerning your activities in last year's committee report. I am interested to know if those recommendations have been in general carried out, and specifically if there are any that we should be emphasizing even more strongly?

Mr. **Beckington**. I think, Mr. Chairman, that in general those comments in the committee report have been very carefully read. I think that they have made an impression. I think they certainly have highlighted this committee's interest in the work of the Inspector General in the Agency.

### TRAVEL FUNDING

Very specifically one point I can make is that this year, for example, we have adequate operational travel funding to carry out my ongoing annual audit program, and I don't anticipate any of the difficulties that I had last year in that regard. That is a function in part of the fact that you give us a foreign aid appropriation this year and in part I think it reflects the general concern of the Administrator that the AID IG function be as adequately and as fully supported as possible.

Senator **Kasten**. One specific point. Back in the late fall a food-for-work program in Bangladesh was the subject of a couple of Jack Anderson's columns which I would assume, at least in part, used your audit report which was issued in November for background.

Could you give us a brief explanation of the problems associated with that project, and then what has been done to correct it?

Mr. **Beckington**. Yes, sir. On the first point so far as I know, Mr. Chairman, Jack Anderson did not have access to my report or my work or my auditors. Evidently whatever he published he published as a result of his own separate inquiry. That was a very large program, and basically it was a food-for-work program which I am sure you are generally familiar with as a type of Public Law 480 title II aid, Mr. Chairman.

In Bangladesh there are long periods of time, about 6 months every year, in which there is really no productive work available for the largely rural farm population of much of the country. This program was devised in major part to give valid productive work to a great many of these people and to reimburse them for it in food. The food stuffs in part came from our Public Law 480 title II program.

We found a great many problems with respect to the administration of that program in Bangladesh which was a very large program and under the aegis of CARE, a private voluntary organization, we found diversion, we found outright corruption. We found useless work being repeated year after year. We found work washed out by the monsoons and built all over again the following year.

We found work being done in such a way that it was redounding to the benefit of private individuals rather than the state or county or whatever political subdivision we might be talking about.

The report was issued in final form in late November, as I recall, of last year. It has had a major impact upon the conduct of the program. We are in the process through an arrangement that has been worked out with the Bangladesh government of recovering the value in kind of about $5 million worth of waste and lost and diverted food commodities that we have identified in our audit report.

I think the report has had a very salutary effect, and I think it is an excellent example of the management of the Agency responding quickly and promptly in this instance to what I believe was a quite clearcut good audit report, a professional piece of work.

## FOREIGN AID PROGRAM TO PAKISTAN

Senator **Kasten**. General, we are about to reenter in a substantial way a foreign assistance program to Pakistan. I believe that your office in Karachi was evacuated along with other U. S. offices after the burning of the U. S. Embassy.

Has your office been now restored to full strength so that you will be in a position to cover this new program, as well as the regional responsibilities that that office had, or are you still going to be limited in terms of people, and thereby possibly limited in terms of carrying out your responsibilities and duties?

Mr. **BECKINGTON**. Specifically, Mr. Chairman, as of now we have not yet restored that office to its authorized staffing. In discussing several months ago the probable resolution of a significant aid program in Pakistan the question of bringing this office up to its authorized staffing did in fact come up, and I have been assured that as we move into this program every possible effort will be made to find the resources in people, space, and so on to permit the Agency to do that.

I would anticipate sometime during the months just ahead that we will have to be discussing that in a very specific fashion within the Agency.

Senator **KASTEN**. I think this is a very important point because, as you know, not only are we talking about responsibility for aid for Pakistan, but also regional responsibility will be covered there. It looks as though we are going to significantly increase our AID activities, and others in these areas. I think it is very important that we work with you and make sure that you are up to full strength as this new program begins.

General, I would like to thank you on behalf of the subcommittee for your testimony here today.

### SUBMITTED QUESTIONS

There are additional questions that we have, and I believe other Senators may have. We will submit those questions to you in writing, and hopefully you can get back to us in ten days or two weeks.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### IMPLEMENTATION PROBLEM

Senator Kasten: Let me ask you the same question I asked the G.A.O. with reference to implementation of projects. Why is this such a continuous problem, and do you agree with my suggestion that this implementation must be made a part of one's personnel performance records before this problem will be relieved?

Mr. Beckington: In my opening statement, Mr. Chairman, I expressed my belief that the bilateral foreign aid programs administered by A.I.D. pose extremely tough and demanding challenges across all levels of the Agency both here in Washington and overseas. Nowhere does this seem to be more true than in the actual implementation of our approved programs and projects. Based upon my own reviews I would summarize the more systemic causes of implementation problems to be these:

- A tendency to use the host country contracting system in instances where there has been an inadequate assessment of host country capabilities.
- The Agency's difficulties in carrying out its own systems of regular oversight, monitoring, evaluating and reporting on projects and programs in progress under contract or grant auspices.
- An institutional reluctance to cancel, curtail or otherwise sharply alter an ongoing project that is failing or seriously faltering. This is generally a difficult management decision, and when made must face up to competing pressures emanating variously from a host government, contractor or grantee, agency bureau, field mission or other involved interests. In recent months there is clear evidence that the Administrator of the Agency is assigning a new priority to the identification of this type of situation and termination action when warranted.
- There is a lack of continuity in the oversight and monitoring of the implementation process flowing from the Agency's necessity to rotate its foreign service staff. Obviously this condition cannot be eliminated; ways to ameliorate its impact should be pursued.

My answer to the second part of your question is yes. This, of course, is fully provided for now in our current personnel rating systems.

### EARLY REPORTS OF CONSISTENT PROBLEMS

Senator Kasten: Is there any mechanism whereby consistent problems which you find, and which may have wide applicability, are distributed Agency-wide?

Mr. Beckington: We do not now have such a system directed by the IG. Presently, this responsibility rests with the Washington based regional and central bureaus. This is not proving to be an adequate system for dissemination of common or recurrent type problems. By the early part of the new fiscal year we will have in place a mechanism for one time or "flash" reports of these kinds of findings from audit and investigative reporting as well as a method for timely compilations of repetitive types of problems and difficulties in discrete program areas.

## STATUS OF REGIONAL IG OFFICE, KARACHI

Senator Kasten: The United States is about to re-enter, in a substantial way, with foreign assistance programs to Pakistan. I believe your office in Karachi was evacuated, along with other U.S. offices after the burning of the U.S. Embassy.

Has your office been restored to full strength so that you can cover this new program, as well as the regional responsibilities that that office had?

Mr. Beckington: As I noted earlier, Mr. Chairman, there are presently no provisions made for restoring the regional office in Karachi to authorized strength. As the Pakistan A.I.D. program resumes I believe this question will be reviewed in light of the Karachi office's inability at present staffing levels to be responsive to current requirements plus a major new A.I.D. program (Pakistan) in the region. Preliminary discussions of this need were held earlier this year.

## A.I.D. IG STAFFING

Senator Kasten: Would you provide the Committee with a staffing pattern for your office, including both on-board strength and authorized positions, in Washington and overseas, for the last three fiscal years?

Mr. Beckington: The following chart provides the information requested. The figures reflect worldwide totals.

| 1980 | AUTHORIZED | ON-BOARD |
|---|---|---|
| U.S. Professional | 147 | 128 |
| F.N. Professional | 17 | 17 |
| U.S. Support | 41 | 37 |
| F.N. Support | 9 | 9 |
| Intern'tl. Dev. Interns | 4 | 4 |
| Total | 218 | 195 |
| 1981 | | |
| U.S. Professional | 122 | 120 |
| F.N. Professional | 17 | 12 |
| U.S. Support | 31.8 | 34.2 |
| F.N. Support | 9 | 6 |
| Intern'tl. Dev. Interns | 1 | 1 |
| Total | 180.8 | 173.2 |
| 1982 (As of April 30, 1982) | | |
| U.S. Professional | 122 | 119 |
| F.N. Professional | 15 | 13 |
| U.S. Support | 22 | 22 |
| F.N. Support | 7 | 6 |
| Intern'tl. Dev. Interns | 1 | 1 |
| Total | 168 | 161 |

## INTERNAL CONTROLS

Senator Kasten: Drawing from your reviews of A.I.D.'s administration of its various internal systems of control, have you identified any general conditions or causes of the kinds of problems you have been reporting?

Mr. Beckington: It is not particularly easy to do so, Mr. Chairman. We have found with disturbing frequency a failure, or partial failure, in the implementation process to comply with A.I.D's internal control systems. We have found these conditions in our participant training programs, voucher certifications, procurement, adherence to and follow up in the evaluation processes, to note some examples. The systems we are talking about are usually quite detailed, generally clearly described in our administrative regulations; they require time, attentiveness and training to administer. From my reviews it is possible for me to conclude that these internal control systems simply do not routinely receive the time and attentiveness they require to be consistently effective. The task of meeting planning, design and programing objectives may be receiving priority in many instances over the painstaking detail of various internal control systems. Field missions, as well as Washington bureaus, will sometimes cite lack of staff - inadequacies in either number or training or both. I believe also, on the basis of some of my reviews, that there is at times a failure to appreciate the very significant role these internal control systems can play in making our A.I.D. programs and projects more efficient and effective.

There is a good prospect, I believe, that we are on the threshold of an improvement of the Agency's overall performance in this area of internal controls. I have cited elsewhere the significant attention this subject is now receiving within the Agency; additionally OMB through its recently issued Circular A-123 is prompting a series of specific actions which hold promise of improvement.

## COOPERATION OF PVO's

Senator Kasten: Have the PVOs you have inspected and audited been cooperative in providing all of the information necessary for you to conduct your review?

Mr. Beckington: Generally speaking, yes. Now and then a glitch will appear, but in all cases to date when this has occurred we have been able to work them out within the framework of the IG's statutory duties and responsibilities.

## QUESTIONABLE VOUCHER PAYMENTS

Senator Kasten: One of your recent reports, as you mentioned in your statement, found that $6.5 million of some $41 million of paid vouchers reviewed were of questionable validity. I have two questions regarding this report.

First, what, if anything, has the Agency done to try to correct this problem; and

Second, is it possible that while your report found problems with approximately one-seventh of the vouchers reviewed, that, in fact, this percentage could be higher?

Mr. Beckington: The Agency is moving with considerable vigor to address the questions raised by this report, Mr. Chairman. A very senior level task force has been established, and has begun its work to find ways to deal with our voucher problems. Given the global reach of the Agency's operations and the contractor, grantee, host country structuring of implementation methods I believe the solution to these problems will be difficult and take some time to achieve.

On the second part of your question, yes, it is quite possible.

## PROCUREMENT PRACTICES

Senator Kasten: Did this report on procurement practices look at procurement done under contracts rather than direct A.I.D. procurement?

If not, is that another area where substantial funds possibly are being wasted?

Mr. Beckington: This report did look at procurement done under contracts, specifically, host country contracts, and did identify actual and potential waste.

## COST OF IG OPERATION

Senator Kasten: How much of the operating expense account is allocated to your function for fiscal year 1983?

If Congress should choose to provide you with the resources necessary to adequately audit and cover the A.I.D. program, how much would that be for fiscal year 1983?

Mr. Beckington: In the FY 1983 request for Agency operating expenses (about $376 million) a total of about $17.8 million can be identified for all facets of the IG function. This figure includes all salaries and allowances. This figure will maintain the IG function at current levels, a specific goal of the Agency. As you know, Mr. Chairman, the GAO has made the judgment that the A.I.D. IG organization is too small by about half to adequately carry out its various tasks. Using this finding as a general guide the IG function would have to be funded at a level substantially above the current request for 1983. Neither I, as the IG, Mr. Chairman, nor the Agency are authorized or able to seek or support such a course of action at this time.

## INTEREST ON CASH ADVANCES

Senator Kasten: One of the problems you highlighted in your statement were instances of cash advances being put in interest bearing accounts - the benefit of that interest, I presume, not accruing to the United States Government.

Are there any instances where this practice is allowable or permitted by A.I.D. rules and regulations?

If so, under what circumstances?

Mr. Beckington: I have encountered some uncertainty in the

Agency's interpretations of existing regulations on this point. There may be two situations in which interest on cash advances does not accrue to the U.S. Government. One of these would involve advances under loans to host countries. The other could be in the case of cash advances to intermediate credit institutions. An IG review scheduled for this calendar year will have as an objective clarification of both Agency policy and practice in this regard.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### INVOLVEMENT OF RECIPIENT COUNTRIES

Senator Inouye: Mr. Beckington, the General Accounting Office has suggested that A.I.D. "should increase recipient-government involvement in program design and management for U.S.-supported projects."

How can this goal be reconciled with your finding that developing countries are characterized by "a serious shortage of indigenous management and technical skills including those of public administration and financial management"?

Mr. Beckington: In my judgment it can only be done successfully by combining two approaches. The first of these I have referred to elsewhere in my testimony, that is, a more rigorous and careful assessment on a case by case basis by A.I.D. of a host country's capability to perform under A.I.D.'s host country contracting policy. Secondly, we must be more attentive to that part of the A.I.D. policy statement on this system which recognizes the need for training as a part of the process. For example, in a borderline case I believe a prudent judgment in favor of proceeding through the host country method could be made by an A.I.D. mission if accompanied by carefully targeted training in certain skills and disciplines clearly necessary to the successful host country implementation of the project.

### RECOVERY OF QUESTIONED PAYMENTS

Senator Inouye: In that section of your statement which deals with internal controls of the Agency, you note that your review of some $41 million of paid vouchers revealed that $6.5 million of the total were of questionable validity.

What actions has the Agency taken to recover the $6.5 million in questionable payments?

Mr. Beckington: The Agency has moved promptly to recover these monies, Mr. Chairman. Close to half of the total amount has, as of now, been recovered either through repayment or off set. This actually constitutes the total recovery action open to the Agency at this time; a portion of the remainder of the $6.5 million total identified in the report must await resolution of an associated criminal investigation currently under the purview of the Dept. of Justice.

## IMPROVEMENT OF STANDARDS

Senator Inouye: You are quite complimentary of efforts to raise and improve the Agency's administrative and managerial standards.

Has the $6.5 million been pursued "at a level of intensity and attention to detail (you) had not previously observed"?

Mr. Beckington: Very much so in this instance. In fact, the quick and very high level reaction in the case of this critical report is one of the examples I had in mind when I referred to the Agency's current efforts to upgrade administrative and management performance.

## CONTROL OF ADVANCES

Senator Inouye: Your statement notes your finding that almost $6 million of $7 million advanced to a regional development bank over a three-year period could not be documented as having ever been used for the purposes intended or for any purpose.

What is the name of this regional development bank?

Does A.I.D. intend to advance any funds to it in fiscal year 1982 or fiscal year 1983?

Mr. Beckington: The bank in question is the Caribbean Development Bank. I am advised that A.I.D. has continued to make advances to the bank during the current fiscal year and plans additional advances in FY 1983. I should note that from information available to me the control over these advances has greatly improved, and the amounts being advanced and the time periods involved over which advances are made have been sharply reduced. It has turned out to be another example of a firm management reaction to a critical audit finding.

## PRESSURES TO OBLIGATE FUNDS

Senatory Inouye: A common theme among many of the problems you have identified is over-optimism. You have found this with reference to host country capabilities and in PVO projects.

Is this really over-optimism about capabilities or the obligation of funds despite misgivings? In other words, do the pressures to obligate funds override considerations of absorptive capacity?

Mr. Beckington: This is a difficult question to answer. I am fairly confident, based upon my reviews, that my testimony on the role of over-optimism in some of these situations is sound. I think we all, A.I.D., host countries, grantees share in this. I am aware, of course, that time pressures to obligate funds do arise from time to time. I am not able, however, on the basis of my reviews to assess the actual impact of these pressures. A planned review of year end spending to begin late this calendar year may provide me with information on this point.

### CONCLUDING REMARKS

Senator **Kasten**. Once more I would like to thank you for the work you are doing and for the fine cooperation that we have received working with you, and we congratulate you on what we look to as a job that is being done in a very deliberate and businesslike way. I think if we are getting accountability within the Agency, that it is in part due to Mr. McPherson, but also in large part due to the quality of the work you are doing, and for that we thank you.

Thank you for your testimony today.

Mr. **Beckington**. Thank you, Mr. Chairman.

Senator **Kasten**. The record of today's hearing will remain open for 2 weeks during which time members may submit questions in writing.

### SUBCOMMITTEE RECESS

The subcommittee now stands in recess until April 27 at 2 p.m. at which time we will receive testimony on the fiscal year 1983 budget request for the Peace Corps and Inter-American Foundation.

Thank you very much.

[Whereupon, at 3:30 p.m., Thursday, April 22, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 27, 1982.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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TUESDAY, APRIL 27, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2 p.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## INTER-AMERICAN FOUNDATION

### STATEMENT OF PETER D. BELL, PRESIDENT, INTER-AMERICAN FOUNDATION

### INTRODUCTION OF AGENCIES

Senator KASTEN. The subcommittee will come to order.

This afternoon we continue our fiscal year 1983 hearings with testimony in support of the budget request for the Inter-American Foundation and the Peace Corps.

The hearing on the Peace Corps marks the first time in over a decade that we will be hearing from that institution as a separate and independent one. I note the supporters of the Peace Corps hope this new separation will reinstate the widespread identification the Peace Corps held in the American society in the years past.

Our first witness is Peter Bell, President of the Inter-American Foundation.

Mr. Bell, you may begin your testimony, and I welcome you.

### LIVING CONDITIONS OF CARIBBEAN POOR

Mr. BELL. Mr. Chairman, the lives of poor people in Latin America and the Caribbean are never easy. Even in the best of times, poor people in the region lead lives of uncertainty, scarcity, and back-breaking work. During this past year, however, the economic growth rate for the region was the lowest in 35 years. As a result, unemployment was unusually high in most countries. The effects were especially hard on the poor, who must always struggle to improve their lives, but had to devise new ways simply to survive.

The Inter-American Foundation was created by Congress to support the self-help efforts of poor people. By most quantitative measures, the role of the Foundation in alleviating poverty in Latin

America and the Caribbean is small. The Foundation's budget appears insignificant in relation to the needs of 100 million poor people, and we are minuscule compared with the resources of the World Bank, the Inter-American Development Bank, and AID.

### BUDGET REQUEST

The Foundation's congressional appropriation of $15.8 million in fiscal year 1981 was 1.5 percent of all U.S. Government development assistance to Latin America and the Caribbean. Our appropriation for fiscal year 1982 is $12 million, and today we are seeking an appropriation of $10.6 for fiscal year 1983.

Although small, the Inter-American Foundation fulfills a special role. Unlike any other U.S. Government or multilateral development institution, the Foundation works primarily through private, locally controlled, and community-based organizations. Our grants, usually less than $50,000, support directly the self-help initiatives of the poor. Most grants are for agricultural and rural development, education and training, small urban enterprises, and community services.

The people we assist design their own projects, manage them, and assume the responsibility for their success or failure. We favor projects that will serve as examples for development efforts elsewhere, and we expect the groups to demonstrate their commitment by contributing their own resources, by raising local counterpart funds, and by accounting responsibly for our funds.

### IDEAS ON GRASSROOTS DEVELOPMENT

At the same time, we are committed not simply to the support of specific projects, but also to the testing and promotion of a set of six basic ideas about grassroots development. These six ideas have been formed over the past 11 years, in which we have made 1,200 grants for $134 million.

First, we respect the capabilities of the people whose efforts we support, and believe that they know best how to identify their own problems and priorities. The small farmers, sharecroppers, migrant laborers, itinerant vendors, market women, and artisans with whom we work are resourceful, energetic, and committed.

Second, we believe that organization and cooperation among the poor are essential for the success of self-help effort. By combining their resources and working together, poor people can realize economies of scale, gain bargaining power, and pave the way for pursuing more ambitious goals.

Third, we have seen that governmental and commercial institutions pass up opportunities for investment in the poor which, if given a chance, can pay off. We seek to change such views that underestimate what groups with low income can accomplish. By providing seed capital for projects, we assist groups to obtain support from other sources and to demonstrate that they can devise and manage their own development projects. Our grants show that poor people will make sacrifices for long-term objectives, that they can put aside savings, and that they can become worthy credit risks.

Fourth, in accord with our congressional charter, we also invest in the social aspects of development. Grants for community-based activities in education, nutrition, health, and housing directly improve the quality of life. We believe that these social investments contribute as well to economic development.

Fifth, we believe that strong grassroots organizations are democratic institutions in their own right, and that they are vital to functioning democracies at the national level. Rural cooperatives and neighborhood associations increase members' stakes in their own societies. They also serve as training grounds for participation, leadership, and group decisionmaking.

Finally, we believe that if a development organization like the Foundation is to work effectively with poor people, it must develop internal procedures that provide rapid and flexible responses to proposals. We consider seven proposals for each approved grant, and we take an average of less than 4 months to accept or reject a proposal. A quick "No" may be preferred to a drawn out "Yes." We keep redtape to the minimum—in each of the past 5 years, administrative costs have been less than 15 percent of our budget.

## CONCLUDING REMARKS

My written testimony and the Foundation's annual report for 1981 have been distributed to members of this subcommittee. Neither document, however, can adequately convey the commitment that the groups we assist feel toward their projects, or the excitement that we feel about the groups themselves. During the coming months, I hope that members of the subcommittee will have the opportunity to visit Foundation-supported projects.

Amidst the poverty of Latin America and the Caribbean, you will see poor people struggling to survive, and you will see them advancing against great odds. You will see that their efforts are worthy of our support, and their accomplishments deserving of our respect.

Thank you, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement follows:]

# PREPARED STATEMENT OF PETER D. BELL
## PRESIDENT
## INTER-AMERICAN FOUNDATION

Even in the best of times, poor people in Latin America and the Caribbean lead lives of uncertainty, scarcity, and back-breaking work. During this past year, however, the economic growth rate for the region was its lowest in 35 years. Unemployment was unusually high; and the poor, who must always struggle to improve their situations, had to devise new ways simply to survive.

People who confront poverty have limited choices. Some of the most desperate--and some of the most dynamic--leave their countries to seek employment elsewhere. They include Mexicans crossing the Rio Grande into the southwestern United States, Haitians crowding into boats for Florida, Salvadorans and Guatemalans trekking to Mexico, Colombians into Venezuela, and Bolivians and Paraguayans into Argentina. And for all the tens of thousands who cross international borders, there are hundreds of thousands who move from the countryside to expanding towns and cities of their own countries. Over recent decades, these internal migrants have transformed much of Latin America from rural to urban societies.

Although most Latin Americans now live in towns and cities, the majority of poor people continue to live in rural areas. Approximately half the rural population live in severe poverty, compared with a quarter of the urban population. These rural poor are small farmers, sharecroppers, and wage laborers. For Latin America as a whole, two-thirds of the rural poor are landless. By virtue of ownership of land, small farmers are usually not the poorest of the poor; but even they must increasingly supplement their meager incomes by wage labor. If they remain in the countryside, they contend not only with the vicissitudes of the weather but also with the increasing cost of agricultural inputs, fluctuating prices and uncertain markets for their products, and the economic policies of governments susceptible to growing urban pressures.

The urban poor are located in small towns as well as in the overcrowded tenement houses and burgeoning squatter settlements of metropolitan areas. A large and growing proportion of the urban poor earn their livelihood in the myriad of very small businesses that make up the informal sector. They do not receive the minimum wage, nor are they covered by a social security system. Nevertheless, they survive by providing goods and services to each other and to firms in the formal industrial sector. Often, they "save" on housing costs by squatting and building their own dwellings on vacant land. Their chances of eventually obtaining electricity and potable water are much better than in the countryside. So, too, are their chances of sending their children to school and of gaining access to health care.

## Inter-American Foundation

The Inter-American Foundation is a small, experimental agency that seeks innovative approaches to support the self-help efforts of these poor people in Latin America and the Caribbean. It was created by Congress in 1969 out of concern that conventional government-to-government foreign assistance was not reaching poor people.

In the Foundation's enabling legislation, Congress stated that:

> [It] shall be the purpose of the Foundation . . . to:
>
> 1. strengthen the bonds of friendship and understanding among the peoples of this hemisphere;
> 2. support self-help efforts designed to enlarge the opportunities for individual development;
> 3. stimulate and assist effective and ever wider participation of the people in the development process;

4. encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

To carry out these purposes, Congress established the Foundation as an autonomous, semiprivate corporation so that its program would not be affected by short-term U.S. foreign policy. Congress freed the Foundation from such considerations and instructed it to relate to Latin Americans and Caribbeans on a people-to-people basis. The committee report that accompanied the original legislation emphasized the relationship between the Foundation's independent, semiprivate nature and its capacity to operate effectively:

> The [Foundation's] effectiveness in this sensitive area of long-term social and civic development will be determined, in this committee's opinion, as much by the caliber of its Directors and staff as by this new institution's insulation from the ebb and flow of political currents which are ever present in direct government-to-government relations. If the [Foundation] is to make a significant contribution to [its] social development goals . . . , it has to be independent of the political factors which affect the day-to-day course of government policy.

To preserve its independence, Congress vested management of the Foundation in a seven-member, Presidentially-appointed board of directors, a majority of whom must come from the private sector. The current board members are:

Peter T. Jones, Chairman
Senior Vice President and General Counsel
Levi Strauss & Co.

Thomas O. Enders
Assistant Secretary for Inter-American Affairs
Department of State

Doris B. Holleb
Director, Metropolitan Institute
University of Chicago

Alberto Ibargüen
Vice President & Deputy General Counsel
Hartford National Bank and Trust Co.

Marc E. Leland*
Assistant Secretary for International Affairs
Department of the Treasury

Peter McPherson
Administrator
Agency for International Development

Luis G. Nogales
  President
  Nogales, Bermúdez, Chase & Tamayo, Inc.
  Beverly Hills, California

*Nominated by the President, but not yet confirmed by the Senate.

The Foundation also has a nine-member Advisory Council, chaired by Augustin S. Hart, Jr., former vice chairman of the Quaker Oats Company. The Council includes former assistant secretaries of State for inter-American affairs from three previous Administrations.

The Foundation has 62 staff members, all based in Rosslyn, Virginia. Our budget in FY 1982 includes $12 million in Congressional appropriations as well as funds from the Social Progress Trust Fund, administered by the Inter-American Development Bank. Under a three-year agreement between the U.S. Government and the Inter-American Development Bank, an average of $16 million per year is made available to the Foundation from the Trust Fund.

Although the Foundation is independent and semiprivate, when a new grant is made, we send a description of the project to the U.S. ambassador, and we simultaneously notify the Latin American or Caribbean ambassador. In addition, Foundation staff meet regularly with State Department officials in Washington and U.S. ambassadors in the region.

## Role of the Foundation

By any quantifiable measure, the role of the Inter-American Foundation in alleviating poverty in Latin America and the Caribbean is small. The Foundation's budget appears insignificant in relation to the needs of 100 million poor people, and it is minuscule compared with the resources of the World Bank, the United Nations Development Program, the Inter-American Development Bank, and the U.S. Agency for International Development. The Foundation's Congressional appropriation in FY 1981 of $15.8 million was just 1.5 percent of all U.S. government development assistance to Latin America and the Caribbean, and 0.2 percent of all U.S. assistance to developing countries, including contributions to the multilateral lending institutions. Nevertheless, the Foundation fulfills a special role, one for which its small size may be a peculiar asset.

Unlike any other U.S. government or multilateral development institution, the Inter-American Foundation works primarily through private, nongovernmental organizations. We make small grants, usually less than $90,000, to support directly the self-help initiatives of the poor. The grantees design their own projects, manage them, and assume the responsibility for their success or failure. We favor projects that will serve as examples for development efforts elsewhere, and we expect the groups to demonstrate their commitment by contributing their own resources, by raising local counterpart funds, and by accounting responsibly for our funds. We also hope that they will learn from the project experiences and share that learning with the Foundation and with other interested organizations. We follow each Foundation-supported group, suffer through their disappointments, and celebrate their accomplishments. (Several recent grants are described in Appendix A.)

## Guiding Assumptions

At the same time, we are committed not simply to the support of specific projects but to the testing and promotion of a set of ideas about grassroots development. First, we remain impressed by the human quality and economic promise of the people whose efforts we support. The small farmers, sharecroppers, migrant laborers, itinerant vendors, market women, and artisans with whom we work are resourceful, energetic, and committed. Remote rural communities and urban squatter settlements are filled with people who struggle for survival against great odds--symbolized perhaps by the Indian women of the Andean highlands who ceaselessly spin their yarn while they nurse their infants, tend sheep, and walk to market. We are moved by the dignity and resilience of such people, and by their capacity for hard work.

Second, we believe that organization and cooperation among the poor are essential for the success of self-help efforts. By combining their resources and working together, poor people can realize economies of scale, gain bargaining power, and pave the way for pursuing more ambitious goals. The significance of such organization and cooperation is underscored by the consequences of its absence. Isolation reinforces poverty and despair; and it turns people against one another in their competition for scarce resources. By joining together in marketing their crops, small farmers can expect a better return for their labor. By pooling resources for bulk purchases through cooperative stores, remote communities can obtain staples at lower prices. Neighborhood associations in urban settlements have shown that they can resolve disputes, construct schools, collect rubbish, install electricity and water, and improve housing.

Third, we have seen that governmental and commercial institutions in the region pass up opportunities for investment in the poor which, if given a chance, can pay off economically and socially. Stereotypical views that underestimate what groups of people with low incomes can accomplish are themselves obstacles to investment. We seek to change such views. By providing seed capital for projects, we assist groups to obtain support from other sources and to demonstrate that the poor can devise and manage their own development projects. Our grants show that poor people will make sacrifices for long-term objectives, that they can put aside savings from woefully small incomes, and that they can become worthy credit risks for financial institutions which have not previously dealt with them.

Fourth, our charter does not confine our grant-making to economically productive enterprises. The Foundation was created by Congress also to support the social aspects of development. Grants for community-based activities in education, nutrition, health, and housing directly improve the quality of life. We strongly believe that these social investments also contribute importantly to economic development. We are repeatedly impressed by the ingenuity with which low-income groups devise strategies for providing their communities with social services. The private initiatives of the poor will not supersede government responsibilities; but government programs, to be effective, must complement and support self-help efforts.

Fifth, we believe that strong grassroots organizations are democratic institutions in their own right, and that they are vital to functioning democracies at the national level. Rural cooperatives, neighborhood associations, and trade unions increase members' stakes in their own societies. They also serve as training grounds for participation, leadership, and collective decision-making. The prospects for democracy in the region depend not only on whether citizens vote for their representatives, but whether people of varying means and needs can register their legitimate demands with their governments. Grassroots organizations express and mediate people's aspirations, and increase the likelihood that governments will contend with local problems. And when governments are authoritarian, such organizations can still accomplish some of their goals by sheltering a modicum of freedom, participation, and autonomy within local communities.

Finally, if a development organization like the Foundation is to work effectively with poor people, we believe that it must develop internal procedures that provide for rapid and flexible responses to proposals while maintaining high and consistent standards in making grants. We consider approximately seven proposals for each approved grant, and we take an average of less than four months to accept or reject a proposal. We keep red tape to the minimum--in each of the past five years, administrative costs have been less than 15 percent of our budget. Before making a grant, our staff, who are fluent in the languages and understand the cultures of their assigned countries, visit the proponents--travelling to some of the least accessible parts of Latin America and the Caribbean. They listen to the ideas of a group, and encourage the development of the ideas into a proposal; they then review the proposal with colleagues at the Foundation, take their questions back into the field, and finally recommend approval or rejection. Our grants bypass layers of bureaucracy and go directly to local, nongovernmental organizations in the region, many of whom previously had no access to development assistance.

## Setbacks and Accomplishments

In FY 1981, the Foundation worked in 30 countries. We made 220 new and 105 supplemental grants for $21.9 million. During the course of the year, we experienced our share of disappointments. In Central America those disappointments related most often to the disruptions that widespread violence inflicts on the poor. Most of the groups with which we once worked in El Salvador have suffered directly from the conflict there. In most cases, the groups have disbanded or been forced to curtail their activities. There were setbacks elsewhere, too. In the 1970's, the Foundation had supported experiments in Peru and Chile to develop worker self-managed enterprises. Despite sacrifices by worker-owners, many of these firms, like countless other small companies, failed to survive the combination of foreign competition and world recession. In Jamaica lower sugar prices, higher costs, and the government's reorganization of the sugar sector led to the dissolution of the national sugar workers' cooperative, whose education program we had assisted.

Despite such disappointments, we were encouraged by the continuing accomplishments of most Foundation-supported groups and by the redoubled efforts of others who have fallen short of their aspirations. More than 800 of the 900 organizations which the Foundation has funded over the past ten years still exist as vital forces for participation and development in their communities. In Colombia, for example, a self-help housing organization leveraged seven times its initial grant from the Foundation last year; 435 houses were financed through commercial and governmental credit and personal savings. In the Dominican Republic the national cooperative confederation mobilized local resources to build a credit fund that grew to four and a half times the amount of its Foundation grant. Over the past four years, the confederation has made loans to its members totaling more than ten times the grant. In Colombia, Mexico, and Ecuador, the ideas and methods of Foundation-supported programs were adopted by ministries of education seeking to reach Indian communities.

In Uruguay a national federation of wool producers inaugurated a new processing center which is serving more than 3,000 farmers. The federation ranks among the top five wool exporters in Uruguay, assuring small producers a price competitive with that of large landowners. In the Dominican Republic a community development foundation established two centers for organic farming and appropriate technology. The centers now serve as "schools" in which hundreds of Dominican small farmers can learn new production techniques while lowering costs and protecting the environment. In Peru a cooperative of artisans from 13 communities near Huancayo has improved the home-made looms of its weavers, organized a common marketing outlet, and enhanced basic incomes from farming by approximately 50 percent. A revolving loan fund in Paraguay freed a network of 1,000 small cotton farmers from the local creditors to whom they had been obligated to sell their crops. By cooperatively marketing the cotton, the farmers added 30 percent to the price they obtained. SISTREN, a group of Jamaican women street cleaners who formed a theater group, stole the show at the Caribbean festival of the arts in Barbados last summer. They continue to inspire Jamaican audiences with their dramatization of the situations of poor women, motivating other ghetto women to learn to read and write, look for meaningful work, and build self-confidence.

In 1981 the Foundation celebrated its tenth anniversary. During our first decade, we made 1,200 grants for $134 million to 900 private organizations throughout Latin America and the Caribbean. (Additional statistical information about the Foundation is in Appendix B.) Most grants were for agriculture and rural development, education and training, and community services. Grants also supported a small number of projects in legal assistance, cultural expression, and research on grassroots development. Over the last year, we devoted increased attention to evaluating those experiences, sorting out what has and has not worked, and sharing the lessons with our grantees and with other development organizations. The products of these efforts come slowly; but they have already resulted in reports on the Foundation's work in rural credit, on our experience in community health, and on our graduate fellowship and internship programs. Last year we also published a summary of the lessons from our experience with grassroots organizations and a statistical profile of our first ten years of grant-making. Other evaluative studies are well advanced on poor women in development, worker self-managed enterprises in Peru and Chile, and small businesses in the Caribbean. In addition, we are intensifying our efforts at evaluating individual projects.

## The Coming Year

For FY 1983, the Foundation seeks $10.634 million in appropriations (11 percent less than our FY 1982 appropriation of $12.0 million). Our current three-year Social Progress Trust Fund agreement ends in December, 1982. Although our use of monies from the Fund is restricted--the monies are available only in certain countries and for specific program areas--we have relied on them for approximately half of our obligations since the first agreement eight years ago, and we will soon begin negotiations for a new three-year agreement to start in January, 1983. (The Foundation's use of Social Progress Trust Fund monies was authorized by Congress in the Foreign Assistance Act of 1973.)

In the coming year, we will continue our support for self-help development among the poor in Latin America and the Caribbean. We plan to build on the successful pattern of grant-making that we have established in the past and reach out to test what is new and untried in grassroots organizations. Within the framework of our responsive approach, we expect an increase in our support of urban-based organizations and some decline in our work with agricultural groups. In addition, we will be evaluating our programs, promoting relevant research on problems of poverty and grassroots development, and making our findings known to a widening audience.

As in prior years, the Foundation will coordinate activities with organizations such as the U.S. Agency for International Development, the World Bank, and the Inter-American Development Bank. We will also work with U.S. private foundations, voluntary agencies, and Latin American and Caribbean development institutions.

## Conclusion

Although small, the Inter-American Foundation is a significant actor in the United States' overall foreign assistance program. The reduction of poverty and its related social problems in the developing world has long been a goal of bipartisan U.S. foreign policy. The Foundation's support for economic and social development, based on a direct people-to-people basis, has received steady bipartisan support from Congress.

The Foundation's work was commended by the House Appropriations Committee's minority report to the Foreign Assistance Appropriations Bill for FY 1981. While generally critical of foreign aid, the report singled out the Foundation and wholeheartedly endorsed our approach, urging the "expansion of the IAF concept to other regions of the world and to other foreign aid programs which the U.S. supports financially." Congress, in fact, looked to the Inter-American Foundation as a model when it enacted legislation creating the African Development Foundation in 1980.

Last year, the Senate Appropriations Committee commended the Foundation in its report accompanying the Foreign Assistance Appropriations Bill for FY 1982. The report included the following:

> The [Inter-American Foundation's] approach to development has won widespread support for the Foundation in the Congress, in Latin America and in the Caribbean, and among the local organizations whose initiatives it assists.
>
> Unlike larger, government-to-government assistance programs, the Foundation engages the poor and the disadvantaged in the process of development. Rather than being the objects of development schemes concocted by outsiders, the recipients of Foundation grants are, themselves, the initiators of projects. Moreover, before providing assistance, the Foundation assures itself that the project to be funded is supported by the local population and that these people have committed themselves and their limited resources to making projects succeed.
>
> The Committee strongly supports and encourages the Inter-American Foundation in its approach to development. Not only have we been impressed by the Foundation's policies and projects, we have also been impressed by the character and capability of its management and staff. . . .
>
> Because the staff works with indigenous groups, which are typically non-English speakers and inexperienced, its members must be both extremely capable and highly motivated. They are. And, in large part, the Foundation's success is due to its ability to attract qualified staff.

The Inter-American Foundation is contributing to this country's efforts to improve the effectiveness of foreign assistance. It has generated ideas and innovative programs for other development organizations; and it has encouraged self-help groups in Latin America and the Caribbean to devise new approaches to local development. Our work was even more important last year, a trying year for poor people in the hemisphere. They struggled just to survive; and when they advanced, it was against long odds. Their efforts were all the more worthy of our support; and their accomplishments, the more deserving of our respect.

## APPENDIX A

The Association of Rural Aluminum Pan Vendors (Asociación de Vendedores Ambulantes Rurales de Ollas de Aluminio; grant award, $18,400)

In Bolivia, the Foundation has made a grant to an association of men and women who sell aluminum pots and pans. It has 16 members, all from peasant backgrounds in the altiplano. Faced with the dim prospects of subsistence agriculture, they have become itinerant vendors, selling aluminum pans at rural fairs. They purchase in bulk from La Paz suppliers, assign routes to members, and set out individually by bus or on the back of trucks to sell pots on rural market days. Dependent on high-priced suppliers, they earn only about 20 cents per pot.

With a Foundation grant, the members will open a small factory to manufacture their own aluminum pots. On a site purchased with their savings, they will build a plant in which aluminum sheets will be fashioned into pots using simple technology. The grant of $18,400 will provide an operating fund. The group will purchase a second-hand truck to transport pots to rural fairs, and will sell the pots from the back of the truck. The vehicle should enable them to carry large quantities of pots and find new markets.

Throughout Latin America, thousands of subsistence farmers have been thrown into the labor market and must seek other means of survival. Many migrate to cities; but others, such as these pots and pan sellers, remain in rural areas and engage in petty commerce. Can subsistence farmers turned into itinerant salesmen also turn into manufacturers? The Foundation made this grant to see if small-scale industrial production--in this one case, at least--can become a viable alternative for displaced subsistence farmers.

The Mata de Limon and Gandoca Community Development Association (Asociacion Integral de Desarrollo Comunal de Mata de Limon y Gandoca; grant award, $34,000)

Mata de Limon and Gandoca are small villages on the southern Caribbean coast of Costa Rica. Concerned about their lack of access by land to economic centers of the country and the absence of government services, residents formed an association in 1973. The association represents the sixty-three families in the two communities, with an eight-member Board of Directors and a General Assembly made up of one member from each family. The group administers local public works projects, organizes curative and preventive health programs, maintains access trails, and takes local problems before government agencies.

The group has built a horse and ox cart trail between the two villages and the Panamanian border; it has constructed a community center which doubles as a health post; and it has drilled wells for the center and the primary school. The Foundation's grant of $34,000 will enable the association to address two major problems which affect all the residents: intestinal parasites caused by impure water, and a shortage of protein. First, the residents will drill wells for each household, which will tap pure water five to ten meters underground. Second, with assistance of technicians, the residents will construct ponds and drainage systems for the cultivation of fish on each farm. Food for the fish will be generated from root crops and the small animal wastes. The fish will be harvested on a regular basis to provide a needed source of protein.

Foundation funds will be used to purchase those materials and equipment which are not available locally and to pay for technical assistance. The association will contribute labor, some materials, and transportation costs.

Dominican Development Foundation, (Fundación Dominicana de Desarrollo; grant award, $365,000)

The Dominican Development Foundation (FDD) is a community service organization created by Dominican business and professional leaders in 1962. It provides credit and technical assistance to small farmers. Between 1966 and 1980, it loaned $17 million to some 2,700 farmer associations, representing about 60,000 families. Other FDD activities include support for vocational education for urban youth, distribution of medical supplies and equipment, improvement of cattle breeds, low-cost housing rehabilitation, and arts and crafts production among the rural poor. The FDD is funded through grants and loans from private individuals and companies, Dominican or international development institutions, and banks; income is also generated by some of its own activities. It is a member of SOLIDARIOS, the association of national development foundations in Latin America and the Caribbean.

In 1980, the FDD commissioned Accion International (AITEC) to study the feasibility of a program to provide credit and technical assistance to urban micro-enterprises. Based on that study, the FDD is now establishing a program for small enterprises, first in Santo Domingo and eventually in other cities of the Dominican Republic. The program will serve two types of small businesses:

- Bakers, tailors, shoemakers, carpenters, repairmen, and foundrymen--micro-enterprises with no more than six employees and $10,000 in assets. Loans between $300 and $3,000 will help the firms grow, thereby creating new jobs.

- Vendors who sell fruits and vegetables on tricycle pushcarts throughout the city. Loans, for as little as $300, will enable the vendors to purchase their own pedal pushcarts, which for years they have been renting for $1.50 per day.

The FDD plans to lend more than $1.0 million to some 2,100 small-scale businesses in the next three years. The U.S. Agency for International Development (AID) will cover most overhead and technical assistance costs. The Inter-American Foundation grant of $365,000, one of its largest in FY 1981, will complement AID and local resources by providing money for the revolving credit fund.

Jamaica Society for the Blind (grant award, $15,000)

The Jamaica Society for the Blind (JSB) is a private, voluntary organization that provides rehabilitation, education, and social services to the blind. It currently has 5,000 members. Created 25 years ago, it had been managed as a welfare program, but never included the blind themselves in the management of the organization. The members, more interested in programs that would allow self-reliance, formed the Progressive Blind Association several years ago to change the public's perception of the blind. In 1978, they succeeded in amending the charter of the JSB to require at least one-third of the Council's 14 members to be from the blind membership.

Since then, the JSB has been aggressive in seeking new ways in which blind people can lead more productive and independent lives. The Inter-American Foundation grant of $15,000 will establish a revolving loan fund to finance small enterprises run by members, with JSB providing technical, financial, and marketing assistance. The Foundation's grant provides for the loan fund itself; the JSB is providing its own resources to cover the administrative costs of the program.

In Jamaica, as elsewhere, societies have traditionally organized programs to support the disabled, but rarely go beyond the patron-client relationship of "welfare" programs. The Foundation made this grant to the Jamaica Society for the Blind because the small businesses established by members will address not only their economic needs, but also allow them to actively shape their own futures.

*The Corporation for Support of Scientific Investigation in Nutrition* (Corporación para Investigación Científica en Nutrición; grant award, $321,000)

CINUT, a private food and nutrition research center in Santiago, Chile, has a staff of public health physicians, educators, psychologists, communication specialists, nutritionists, nurses, and statisticians. It works in collaboration with governmental agencies and is a recognized authority in Chilean public health and nutrition programs.

In 1979, CINUT formed a unit to be specifically concerned with problems of maternal and child health and nutrition. The unit has since been involved in several community programs.

With Foundation funds, CINUT will train leaders from a poor community of 150,000 people in Santiago to manage programs in nutrition and health education, infant care, and mother-child food supplementation. The grant of $321,000 will partially cover the cost of staff salaries, educational materials, and administrative expenses. The municipal government in Santiago will contribute the field staff, compensation for community volunteers, and some administrative and support facilities. CINUT will provide the rest.

This project encourages community organizations to become involved in health and nutrition. By providing basic training, leaders will be better prepared to work with community members and local public health officials.

The project seeks to create a model of community participation in the design and implementation of municipal health and nutrition programs. Chile's current policy is to transfer to local governments, in block-grant fashion, health and nutrition programs that are now handled by the central government. This project could provide guidelines for similar community involvement in the design and implementation of other social service programs, such as education, which also will be transferred from the central government of Chile to the municipalities.

## Appendix B

## Inter-American Foundation Funding History

### A. Congressional Appropriations

1. In the 1969 enabling legislation, Congress authorized the transfer of $50 million in appropriated funds to remain available until expended.

2. Each year Congress established annual obligation limits (e.g. in FY 1978 the limit was $7,062,000) on the $50 million authorization.

3. At the end of FY 1978, all but $4,654,000 of the $50 million had been obligated.

4. In FY 1979, Congress appropriated an additional $10 million.

5. For FY 1980, a continuing resolution limited appropriations at $12,582,000.

6. For FY 1981, the level was $15,964,000. In early March, the Office of Management and Budget reduced that by $138,000 to $15,826,000.

7. For FY 1982, the Foundation's appropriation is $12,000,000.

8. For FY 1983, the President's budget requests $10,634,000.

### B. Social Progress Trust Fund

1. SPTF monies are allocated by country and restricted for use in the following areas: land use, housing, sanitation, education, health, and financial institutions. There have been 3 three-year agreements with the Inter-American Development Bank:

| | |
|---|---|
| 1974 - 1976 | $31 million over 3 years |
| 1977 - 1979 | $48 million over 3 years |
| 1980 - 1982 | $48 million over 3 years |

### APPROPRIATED FUNDS
### PROGRAM AND FINANCING INFORMATION
### $ in 000

| | Prior Years | FY 1979 | FY 1980 | FY 1981 | FY 1982 | FY 1983 |
|---|---|---|---|---|---|---|
| Budget Authority | | | | | | |
| Transferred From Other Accounts | 50,000 | - | - | - | - | - |
| Appropriated | - | 10,000 | 12,582 | 15,826 | 12,000 | 10,634 |
| Total Budget Authority | 50,000 | 10,000 | 12,582 | 15,826 | 12,000 | 10,634 |
| Amount Available From Prior Years | - | 4,654 | 1,934 | 2,209 | 3,200 | 1,462 |
| Total | 50,000 | 14,654 | 14,516 | 18,035 | 15,200 | 12,096 |
| Recoveries | - | 444 | 155 | 327 | - | - |
| Total | 50,000 | 15,098 | 14,671 | 18,362 | 15,200 | 12,096 |
| Obligations | 45,346 | 13,164 | 12,462 | 15,162 | 13,738 | 10,634 |
| Balance | 4,654 | 1,934 | 2,209 | 3,200 | 1,462 | 1,462 |

## SUMMARY BUDGET DATA

### OBLIGATIONS
($ in thousands)

| | PRIOR YEARS THRU FY 1980 | DURING FY 1981 | FY 1982 PRESIDENT'S BUDGET | FY 1983 PRESIDENT'S BUDGET |
|---|---|---|---|---|
| APPROPRIATED | | | | |
| Program | 51,205 | 11,828 | 9,488 | 6,330 |
| Program Support | 19,440 | 3,335 | 4,250 | 4,304 |
| Sub-Total | 70,645 | 15,163 | 13,738 | 10,634 |
| SPTF | 62,289 | 10,896 | 16,000 | 16,000 |
| GRAND TOTAL | 132,934 | 26,059 | 29,738 | 26,634 |

### EXPENDITURES
($ in thousands)

| | PRIOR YEARS THRU FY 1980 | DURING FY 1981 | FY 1982 PRESIDENT'S BUDGET | FY 1983 PRESIDENT'S BUDGET |
|---|---|---|---|---|
| APPROPRIATED | | | | |
| Program | 42,178 | 7,718 | 13,228 | 8,744 |
| Program Support | 17,879 | 3,853 | 4,050 | 4,232 |
| Sub-Total | 60,057 | 11,571 | 17,278 | 12,976 |
| SPTF | 51,364 | 9,593 | 12,846 | 16,000 |
| GRAND TOTAL | 111,421 * | 21,164 * | 30,124 * | 28,976 * |

* Totals include disbursements of all SPTF monies. Lower figures are shown for outlays in the President's budget because the offsetting collections have been applied.

## PROGRAM FUNDS SUMMARY
## AS OF SEPTEMBER 30, 1981

| | | | |
|---|---|---|---|
| TOTAL OBLIGATIONS TO DATE | | | $ 136,219,448 |
| Appropriated | | | 63,033,171 |
| SPTF | | | 73,186,277 |
| During FY 81 | | $ 22,702,941 | |
| Appropriated | $ 11,805,765 | | |
| SPTF | 10,897,176 | | |
| During FY 80 | | 23,675,022 | |
| Appropriated | 9,483,864 | | |
| SPTF | 14,191,158 | | |
| During FY 79 | | 17,480,011 | |
| Appropriated | 10,622,617 | | |
| SPTF | 6,857,394 | | |
| During FY 78 | | 12,348,447 | |
| Appropriated | 4,067,957 | | |
| SPTF | 8,280,490 | | |
| During FY 77 | | 15,274,527 | |
| Appropriated | 4,270,964 | | |
| SPTF | 11,003,563 | | |
| During FY 76T | | 1,270,448 | |
| Appropriated | 1,132,808 | | |
| SPTF | 137,640 | | |
| During FY 76 | | 11,322,262 | |
| Appropriated | 4,123,716 | | |
| SPTF | 7,198,546 | | |
| During FY 75 | | 13,650,468 | |
| Appropriated | 4,523,987 | | |
| SPTF | 9,126,481 | | |
| During FY 74 | | 12,703,503 | |
| Appropriated | 7,209,674 | | |
| SPTF | 5,493,829 | | |
| During FY 73 | | 2,997,989 | |
| During FY 72 | | 2,793,830 | |

## Grants by Country

## FY 1981

| Country | Number of Grants | Number of Supplemental Grants | Amount |
|---|---|---|---|
| Argentina | 10 | 10 | $ 1,015,435 |
| Bahamas | 1 | - | 6,000 |
| Barbados | 1 | - | 3,770 |
| Belize | 7 | - | 249,000 |
| Bolivia | 17 | 7 | 1,354,026 |
| Caribbean Regional | 6 | 2 | 558,845 |
| Chile | 13 | 13 | 2,326,534 |
| Colombia | 14 | 13 | 2,734,658 |
| Costa Rica | 5 | - | 294,500 |
| Dominica | 8 | 3 | 199,487 |
| Dominican Republic | 16 | 7 | 1,669,164 |
| Ecuador | 7 | 2 | 281,725 |
| El Salvador | - | 1 | 412,746 |
| Grenada | 1 | - | 3,500 |
| Guatemala | 8 | 3 | 1,388,453 |
| Guyana | 1 | - | 53,000 |
| Haiti | 8 | 3 | 886,383 |
| Honduras | 4 | 1 | 530,696 |
| Jamaica | 9 | 3 | 522,387 |
| Latin America Regional | 10 | 2 | 402,359 |
| Mexico | 13 | 9 | 1,496,583 |
| Netherlands Antilles | 1 | - | 112,000 |
| Nicaragua | 4 | 4 | 264,914 |
| Panama | 7 | 3 | 666,932 |
| Paraguay | 16 | 2 | 1,544,040 |
| Peru | 18 | 10 | 1,623,391 |
| St. Kitts | 1 | - | 11,330 |
| St. Lucia | 1 | - | 31,134 |
| St. Vincent | 2 | 2 | 79,205 |
| Suriname | 3 | - | 285,000 |
| Uruguay | 7 | 5 | 835,334 |
| Venezuela | 1 | - | 84,553 |
| Total | 220 | 105 | $ 21,927,084 |

## Grants by Country

## FY 1971 - FY 1981

| Country | Number of Grants | Amount |
|---|---|---|
| Antigua | 2 | $ 163,571 |
| Argentina | 49 | 5,404,250 |
| Bahamas | 3 | 20,110 |
| Barbados | 6 | 719,010 |
| Belize | 19 | 497,061 |
| Bolivia | 54 | 6,952,847 |
| Brazil | 132 | 7,522,889 |
| Caribbean Regional | 35 | 2,950,665 |
| Chile | 87 | 22,186,167 |
| Colombia | 86 | 11,254,374 |
| Costa Rica | 24 | 1,776,359 |
| Dominica | 48 | 984,782 |
| Dominican Republic | 32 | 5,091,621 |
| Ecuador | 32 | 3,399,117 |
| El Salvador | 15 | 3,616,472 |
| Grenada | 8 | 84,912 |
| Guatemala | 41 | 3,948,739 |
| Guyana | 3 | 147,650 |
| Haiti | 30 | 2,656,710 |
| Honduras | 25 | 4,962,163 |
| Jamaica | 30 | 1,959,013 |
| Latin America Regional | 67 | 2,207,761 |
| Mexico | 104 | 10,596,495 |
| Montserrat | 1 | 3,000 |
| Netherlands Antilles | 1 | 112,000 |
| Nevis | 1 | 10,655 |
| Nicaragua | 32 | 5,045,415 |
| Panama | 41 | 4,524,559 |
| Paraguay | 42 | 6,302,705 |
| Peru | 68 | 12,551,719 |
| St. Kitts | 1 | 11,330 |
| St. Lucia | 1 | 31,134 |
| St. Vincent | 5 | 182,610 |
| Suriname | 3 | 285,000 |
| Trinidad | 9 | 484,517 |
| Uruguay | 39 | 4,599,807 |
| Venezuela | 7 | 322,177 |
| Total | 1,183 | $ 133,569,366 |

# ANALYSIS OF MATCHING AND LEVERAGED FUNDS
# FOR ALL OBLIGATED PROJECTS
# AS OF SEPTEMBER 30, 1981

| YEAR | FOUNDATION FUNDS | GRANTEE & OTHER FUNDS | TOTAL | GRANTEE AND OTHER FUNDS AS % OF TOTAL | AS % OF FND. |
|---|---|---|---|---|---|
| FY 1972 | $ 2,793,830 | $ 2,504,016 | $ 5,297,846 | 47% | 90% |
| FY 1973 | 2,943,582 | 4,263,237 | 7,206,819 | 59% | 145% |
| FY 1974 | 11,883,846 | 13,247,954 | 25,131,800 | 53% | 111% |
| FY 1975 | 12,640,415 | 18,786,592 | 31,427,007 | 60% | 149% |
| FY 1976 | 10,934,101 | 14,182,428 | 25,116,529 | 56% | 130% |
| FY 1976T | 1,257,013 | 917,582 | 2,174,595 | 42% | 73% |
| FY 1977 | 14,997,569 | 18,457,981 | 33,455,550 | 55% | 123% |
| FY 1978 | 11,899,695 | 10,596,166 | 22,495,861 | 47% | 89% |
| FY 1979 | 16,988,111 | 14,431,497 | 31,419,608 | 46% | 85% |
| FY 1980 | 23,111,963 | 25,359,919 | 48,471,882 | 52% | 110% |
| FY 1981 | 21,927,084 | 27,948,664 | 49,875,748 | 56% | 127% |
| GRAND TOTAL | $ 131,377,209 | $ 150,696,036 | $ 282,073,245 | 53% | 115% |

### ANALYSIS OF MATCHING FUNDS BY GRANTEES
### FOR ALL OBLIGATED PROJECTS
### AS OF SEPTEMBER 30, 1981

| COUNTRY | FOUNDATION FUNDS | GRANTEE & OTHER FUNDS | TOTAL | GRANTEE AND OTHER FUNDS | |
|---|---|---|---|---|---|
| | | | | AS % OF TOTAL | AS % OF FND. |
| Antigua | $ 163,571 | $ 23,039 | $ 186,610 | 12 | 14 |
| Argentina | 5,377,850 | 5,128,807 | 10,506,657 | 49 | 95 |
| Bahamas | 20,110 | 32,665 | 52,775 | 62 | 162 |
| Barbados | 682,075 | 903,836 | 1,585,911 | 57 | 132 |
| Belize | 495,011 | 445,893 | 940,904 | 48 | 92 |
| Bolivia | 6,876,322 | 4,730,091 | 11,606,413 | 41 | 69 |
| Brazil | 7,139,587 | 8,894,152 | 16,033,739 | 55 | 125 |
| Caribbean Regional | 2,859,724 | 3,553,218 | 6,412,942 | 55 | 124 |
| Chile | 22,186,167 | 31,716,978 | 53,903,145 | 59 | 143 |
| Colombia | 11,091,014 | 11,175,783 | 22,266,797 | 50 | 101 |
| Costa Rica | 1,609,283 | 3,440,779 | 5,050,062 | 68 | 214 |
| Dominica | 916,324 | 561,075 | 1,477,399 | 38 | 61 |
| Dominican Republic | 5,047,381 | 5,707,679 | 10,755,060 | 53 | 113 |
| Ecuador | 3,348,875 | 3,922,698 | 7,271,573 | 54 | 114 |
| El Salvador | 3,348,685 | 3,753,003 | 7,101,688 | 53 | 112 |
| Grenada | 84,912 | 53,970 | 138,882 | 39 | 64 |
| Guatemala | 3,946,239 | 6,890,804 | 10,837,043 | 64 | 175 |
| Guyana | 136,200 | 63,900 | 200,100 | 32 | 47 |
| Haiti | 2,637,847 | 3,337,612 | 5,975,459 | 56 | 127 |
| Honduras | 4,854,003 | 6,669,470 | 11,523,473 | 58 | 137 |
| Jamaica | 1,873,212 | 1,764,170 | 3,637,382 | 52 | 110 |
| LA Regional | 2,207,761 | 4,657,616 | 6,865,377 | 68 | 211 |
| Mexico | 10,537,803 | 11,815,685 | 22,353,488 | 53 | 112 |
| Montserrat | 3,000 | 0 | 3,000 | 0 | 0 |
| Netherlands Antilles | 112,000 | 85,000 | 197,000 | 43 | 76 |
| Nevis | 10,655 | 2,200 | 12,855 | 17 | 21 |
| Nicaragua | 5,009,465 | 8,815,153 | 13,824,618 | 64 | 176 |
| Panama | 4,492,559 | 5,289,754 | 9,782,313 | 54 | 118 |
| Paraguay | 6,082,428 | 3,818,055 | 9,900,483 | 39 | 63 |
| Peru | 12,551,719 | 7,656,131 | 20,207,850 | 38 | 61 |
| St. Kitts | 11,330 | 72,890 | 84,220 | 87 | 643 |
| St. Lucia | 31,134 | 20,222 | 51,356 | 39 | 65 |
| St. Vincent | 182,610 | 256,660 | 439,270 | 58 | 141 |
| Suriname | 285,000 | 431,300 | 716,300 | 60 | 151 |
| Trinidad | 467,517 | 685,798 | 1,153,315 | 59 | 147 |
| Uruguay | 4,383,863 | 3,901,115 | 8,284,978 | 47 | 89 |
| Venezuela | 313,973 | 418,835 | 732,808 | 57 | 133 |
| TOTAL | $131,377,209 | $150,696,036 | $282,073,245 | 53 | 115 |

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* Since matching funds were not required on some evaluation projects, they have not been included in this report.

PROGRAM SUPPORT FUNDS
($ in 000)
OBLIGATIONS

| OBJECT CLASS | CATEGORY | FY 80 ACTUAL | FY 81 ACTUAL | FY 82 BUDGET | PROPOSED FY 83 BUDGET |
|---|---|---|---|---|---|
| | STAFF SALARIES & RELATED EXP. | | | | |
| 11.1 | A. Permanent Positions | $ 1,711 | $ 1,787 | $ 2,071 | $ 2,105 |
| 11.3 | B. Positions Other than Perm. | 98 | 74 | - | - |
| 11.5 | C. Other Persnl. Compensation | 30 | 39 | 74 | 74 |
| 11.8 | D. Spec. Persnl. Ser. Payments | - | - | 91 | 55 |
| | TOTAL | 1,839 | 1,900 | 2,236 | 2,234 |
| 12.1 | E. Personnel Benefits | 158 | 167 | 193 | 190 |
| 13.0 | F. Benefits for Former Personnel | - | - | - | - |
| 21.0 | FOUNDATION TRAVEL | 288 | 323 | 592 | 609 |
| | SUPPORT SERVICES | | | | |
| 23.0 | A. Rent and Utilities | 124 | 188 | 265 | 300 |
| 23.0 | B. Communications | 90 | 105 | 120 | 130 |
| 23.0 | C. Postage | 16 | 28 | 45 | 52 |
| 23.0 | D. Rental of Equipment | 58 | 102 | 172 | 185 |
| | TOTAL | 288 | 423 | 602 | 667 |
| 24.0 | E. Printing & Reproduction | 36 | 72 | 82 | 107 |
| 25.0 | F. Commercial Contractor | 245 | 289 | 417 | 350 |
| 25.0 | G. Maintenance of Equip. | 9 | 9 | 12 | 12 |
| 25.0 | H. Building Alterations | 3 | 43 | 10 | 10 |
| 25.0 | I. Leased Transportation | 1 | 2 | 3 | 4 |
| 25.0 | J. Contractual Admin. Serv. | 30 | 7 | 48 | 48 |
| 25.0 | K. Representation Allowance | 3 | 3 | 4 | 4 |
| | TOTAL | 291 | 353 | 494 | 428 |
| 26.0 | L. Consumable Supplies | 32 | 70 | 27 | 45 |
| 26.0 | M. Resources Library | 7 | 11 | 9 | 9 |
| | TOTAL | 39 | 81 | 36 | 54 |
| 31.0 | N. Office Furnit. & Equip. | 5 | 16 | 15 | 15 |
| | TOTAL FOR PROGRAM SUPPORT | $ 2,944 | $ 3,335 | $ 4,250 | $ 4,304 |
| | TOTAL IAF BUDGET | $26,619 | $26,059 | $29,738 | $26,634 |
| FULL TIME EQUIVALENT POSITIONS AVAILABLE | | 64 | 63 | 62 | 63 |

## DISTRIBUTION OF FULL TIME EMPLOYEES IN PERMANENT POSITIONS AS OF SEPTEMBER 30, 1981

| | | Number of Employees | Percent in Each Grade of Agency Total |
|---|---|---|---|
| Presidential Appointee | | | |
| Executive Level IV | ($52,750) | 1 | 1.67 |
| TOTAL | | 1 | 1.67 |
| Classification Act | | | |
| GS-16 | ($49,198 to $50,112) | 1 | 1.67 |
| GS-15 | ($44,547 to $50,112) | 6 | 10.00 |
| GS-14 | ($37,871 to $49,229) | 6 | 10.00 |
| GS-13 | ($32,048 to $41,660) | 14 | 23.33 |
| GS-12 | ($26,951 to $35,033) | 6 | 10.00 |
| GS-11 | ($22,486 to $29,236) | 6 | 10.00 |
| GS-10 | ($20,467 to $26,605) | 1 | 1.67 |
| GS-9 | ($18,585 to $24,165) | 5 | 8.33 |
| GS-8 | ($16,826 to $21,875) | 1 | 1.67 |
| GS-7 | ($15,193 to $19,747) | 2 | 3.33 |
| GS-6 | ($13,672 to $17,776) | 4 | 6.67 |
| GS-5 | ($12,266 to $15,947) | 7 | 11.66 |
| GS-4 | ($10,963 to $14,248) | - | - |
| GS-3 | ( $9,766 to $12,700) | - | - |
| TOTAL | | 59 | 98.33 |
| GRAND TOTAL | | 60 | 100.00 |
| | | Average Salary: | $27,932 |

Note: Does not include 1 GS-7 who was a temporary employee working full time.

# INTER-AMERICAN FOUNDATION

# ANNUAL REPORT 1981

October 1, 1980 to September 30, 1981

The Inter-American Foundation was created by Congress in 1969 as a public corporation to support the self-help efforts of poor people in Latin America and the Caribbean. The Foundation was established because Congress was concerned that traditional programs of development assistance were not reaching poor people. Instead of working with governments, the Foundation responds directly to the initiatives of the poor by supporting local, private organizations. Approximately one-half of the Foundation's funds come from Congressional appropriations and the remainder from the Social Progress Trust Fund of the Inter-American Development Bank.

Congress created the Foundation as an independent agency so that its operations would not be affected by short-term U.S. foreign policy considerations. It is governed by a seven-member Board of Directors appointed by the President and confirmed by the Senate. By law, four members of the Board are from the private sector and three are from the U.S. Government.

The Foundation has made 1,200 grants for $134 million in more than 25 countries. Most grants go to private, grassroots organizations such as agricultural cooperatives, community associations, and small urban enterprises or to larger organizations that work with local groups and provide them with credit, technical assistance, training, and marketing services. A small number of grants each year are made to centers in Latin America and the Caribbean for research on the problems of poor people and grassroots development.

The Foundation has 60 staff members, all based at its offices in Rosslyn, Virginia. Its budget for Fiscal Year 1981 was approximately $26 million.

# A LETTER FROM THE CHAIRMAN

I recently returned from the Dominican Republic—my sixth trip to Latin America and the Caribbean as Chairman of the Inter-American Foundation's Board of Directors. On these trips, which have included visits to Argentina, Chile, Brazil, Colombia, Mexico, Peru, Venezuela, and Barbados, I have seen the accomplishments of the Foundation's low-income grantees, and met with local business and community leaders and others engaged in private, self-help development efforts.

What struck me most on this visit was the contrast—not between rich and poor—but between the hope and accomplishments of poor people who have effectively organized themselves, and the fatalism and difficulties of those struggling alone. I talked to small landowners producing coffee and rice; to small entrepreneurs who make inexpensive clothing and shoes; and to fruit and vegetable vendors who, with Foundation help, have acquired their own tricycle pushcarts which they formerly rented at exorbitant rates. By any standards, these are poor people. But they are successfully managing their own farms and businesses, and they have formed cooperative organizations to achieve what they are unable to do alone. Through their organizations, they have gained access to credit; jointly purchased tractors and facilities for drying their produce; reduced the costs of raw materials; and expanded their markets.

In 1979, farmers in the Dominican Republic saw their homes, land, and equipment devastated by Hurricanes David and Frederick. They were able to rebuild quickly and efficiently because their cooperative organizations were in place. These small landowners show pride and self-confidence in managing their own affairs, and they are determined in their joint efforts to create better lives for their families and their community. They know they are doing it themselves, but they also acknowledge the importance of the credit that was made available to them through their federation's loan fund.

The IAF's contribution to that loan fund helped the federation to mobilize local resources four times the amount of our grant. The essential ingredients for success, private ownership combined with joint action, also characterized the small furniture and clothing producers as well as the street vendors who were organizing to become owners of their pushcarts.

The contrast with another farming community we visited was stark. This community, which had also suffered severe hurricane damage in 1979, lacked any strong local organization that could stimulate and reinforce individual efforts. The existing farmers' association was loosely structured and required little financial commitment or other involvement from its members. According to the farmers themselves, hundreds of thousands of dollars had been made available in the aftermath of the hurricanes, but local participation and initiative was not encouraged in rehabilitation activities. Loans were not paid back, nor was there much expectation by donor agencies that they would be. The money provided, whether in loans or gifts, was largely squandered.

The contrast was also marked between those fruit and vegetable vendors who owned their pushcarts and those who paid much of their earnings in rent. By joining together into groups of four or more, the vendors are able to produce enough collateral to secure loans to purchase their carts from the Dominican Development Foundation, a private development institution organized by local business leaders. The pride and satisfaction of the new owners were evident, as were the excitement and determination of vendors who had recently formed their four-person associations and were pressing for credit to purchase carts. Their story illustrates how cooperative efforts can help poor people secure a better place in the market economy and how, by jointly doing what cannot be done alone, individual initiative is stimulated and economic advancement achieved.

## Congressional Mandate

My sixth field trip to Latin America and the Caribbean confirmed once again my conviction that, in establishing the Inter-American Foundation in 1969, Congress created a very special institution—an autonomous foundation with public funds that would develop a unique partnership with private, nongovernmental organizations throughout Latin America and the Caribbean. This partnership has demonstrated how U.S. development assistance can creatively help mobilize local private resources in response to self-help initiatives of poor people.

To facilitate relations with private groups, Congress gave the Foundation many of the characteristics of a private institution. By law the Foundation is to be a small agency with low overhead; its staff cannot exceed 100 persons. Its management is vested in an independent board of seven directors, four of whom are drawn from the private sector. It must remain apart from short-term foreign policy considerations, and instead of channeling its assistance to governments, the Foundation was instructed to work with Latin Americans and Caribbeans on a people-to-people basis. Through its collaboration with private indigenous groups, the Foundation has managed to maintain greater continuity in its programs than is often possible with government-to-government operations.

IAF grants are supporting the initiatives of poor people trying innovative approaches to increase their incomes, create employment, improve health, and develop new skills. Throughout its program of grants, the Foundation has consistently pursued two purposes: to support and encourage local private organizations in their struggle against poverty, and to help poor people assume a major role in the resolution of their own problems, including the opportunity to participate more fully in the market economy.

Approximately $100 million out of the total of $134 million in IAF grants made during our ten-year history has assisted privately owned farms and businesses. Most of the remainder has supported community-organized services and research on issues of poverty and grassroots development. IAF funding in Latin America and the Caribbean has been more than matched by the contributions of others, including commitments from local business communities and from the low-income beneficiaries themselves. The amount of locally-generated resources often increases over time as organizations become stronger.

In urban areas, IAF grants assist small entrepreneurs who, for example, manufacture furniture, produce consumer goods, or sell food on their pushcarts. Some IAF-funded projects in rural areas also help small enterprises engaged in such activities as processing food and making crafts.

The bulk of the Foundation's assistance in rural areas is directed to small farmers. Many grants have been made to cooperative associations organized by these small private producers to buy raw materials at lower cost, to expand the markets for their products, or to obtain access to commercial credit. Other projects, largely in Indian communities, are assisting peasant groups engaged in traditional forms of cooperative farming.

The Foundation assists many cooperatives that are either private businesses themselves, or provide services to other small enterprises. They compete in the market and are subject to market forces; they are privately owned; their membership is voluntary; and they engage in economically-productive activities. Cooperatives provide an opportunity for small landowners to take their limited earnings and invest them productively with other low-income farmers. They can thus become joint owners of farm machinery and facilities that alone they could not afford, and expand their participation in the market economy. Local business leaders are frequently important contributors to these cooperative efforts.

### Partnership with Local Business

Members of business communities throughout Latin America and the Caribbean make private sector funds and management expertise available to IAF-supported organizations. In many countries, these business leaders have promoted the establishment of national development foundations (NDFs) to direct local resources to the self-help initiatives of poor people.

The Mexican Rural Development Foundation, for example, was established 12 years ago by highly successful and enlightened Mexican business leaders, and now offers credit and technical assistance to 15,000 small farmers in 18 states of Mexico. The Dominican Development Foundation, again with strong business backing, has provided more than $17 million in credit to farmers, street vendors, and other small entrepreneurs in the Dominican Republic. Similar foundations in Ecuador, Colombia, Bolivia, Argentina, Uruguay, Trinidad and Tobago, Honduras, Nicaragua, and elsewhere are showing the special contribution the private sector can make to development efforts.

These private development foundations are assisting groups that government bureaucracies have been unable to reach effectively. Over the past ten years, the Foundation has made more than 40 grants, totaling $13 million, to 13 NDFs. The largest portion of these grants has been for loan funds for rural cooperatives, small enterprises, and self-help housing projects. The Foundation has seen its grant funds used over and over again as they help mobilize local resources.

### IAF Accomplishments

These and other Foundation activities are demonstrating one effective way that U.S. public funds can be combined with private development resources to support the initiatives of poor people to help themselves. Foundation grants bypass layers of bureaucracy and go directly to local, nongovernmental groups in Latin America and the Caribbean that are working with the poor. Funds are contributing to many organizations and people that previously had no access to development assistance or affordable credit. The Foundation has demonstrated how a governmental development agency can cooperate with community and business groups in support of grassroots, self-help projects that enhance the productive potential and independence of poor people.

Foundation grants have dispelled many misconceptions about the poor. They have, for example, shown that some community services can be provided on a self-sustaining basis because the poor are prepared to pay for services that meet their needs. The Foundation's projects have also shown that the poor can be responsible borrowers. When they combine their borrowing capacities through cooperative organizations, they can become attractive clients to credit institutions. In our ten-year history we have seen that the poor work hard, make substantial sacrifices, and contribute more to the economy when they can see the prospects of benefitting from their own efforts.

The Foundation works in almost every country in Latin America and the Caribbean, and it has gained the confidence and respect of a wide variety of people. The Foundation maintains that trust by responding to the local initiatives of private groups, by respecting their capacity to make decisions for themselves, and by keeping its activities nonpartisan. The trust, access, and legitimacy that it has built reaffirms the soundness of Congress' decision to establish the Foundation as an autonomous, semiprivate corporation to work with private organizations.

### Recognition of IAF's Work

As Chairman of the Foundation's Board of Directors, it has been particularly gratifying to get to know the people with whom we work in Latin America and the Caribbean. Each visit makes me more impressed with the creative ways in which private resources can be mobilized to help the poor solve their own problems and improve their social and economic conditions.

The results of the Foundation's activities are increasingly recognized by people who are concerned with development. Several months ago, the Senate Appropriations Committee commended the Foundation in its report on the 1982 Foreign Aid Bill. The report, prepared by the Foreign Operations Subcommittee, chaired by Senator Robert Kasten (R-Wis.), stated the following:

> [The Inter-American Foundation's] approach to development has won widespread support for the Foundation in the Congress, in Latin America and in the Caribbean, and among the local organizations whose development initiatives it assists.
>
> Unlike larger, government-to-government assistance programs, the Foundation engages the poor and the disadvantaged in the process of development. Rather than being the objects of development schemes concocted by outsiders, the recipients of Foundation grants are, themselves, the initiators of projects. Moreover, before providing assistance, the Foundation assures itself that the project to be funded is supported by the local population and that these people have committed themselves and their limited resources to making projects succeed.
>
> The Committee strongly supports and encourages the Inter-American Foundation in its approach to development.

Within the House of Representatives, the Foundation was paid a special tribute by Congressman Robert Garcia (D-N.Y.), Chairman of the Hispanic Caucus, who has been a close observer of development in the region and is also working to improve the economic opportunities for poor people in our own cities. Last year, Congressman Garcia stated in the *Congressional Record:*

> What makes the work of the Foundation so special is that the beneficiaries of its grants put in their own time, labor, and money to guarantee the success of a project. More often than not, each dollar given by the Foundation is matched by funds from local groups. Bureaucracies and red tape are bypassed because the Foundation goes directly to local, non-government organizations.
>
> A typical Foundation grant was recently made to the Holy Cross Fathers in Haiti. The grant, although small, will nonetheless enable IDEA, a church-supported organization, to expand its adult education program and community development activities in Cap Haitien, Haiti. Considering the difficulties the United States is having in handling the Haitian refugee question, a grant that helps Haitians help themselves should not only be encouraged but applauded.
>
> The Foundation fosters creativity. It helps the poor to better themselves without making them permanently dependent on public funds. The IAF has a small staff, well versed in the cultures, languages, and problems of Latin America and the Caribbean. All of our Government's foreign aid programs would be well advised to follow the example set by the Foundation.

The successful partnership that has evolved between the Foundation and local private groups has been recognized within Latin America and the Caribbean. In Argentina last year, the Foundation made a grant to a community group in Lujan, an isolated and economically depressed town of 1,500 people in northwest Argentina. The group, Amigos de Lujan, is an association of private and public organizations that has obtained telephone, water, electrical, medical, and banking services for the town. With a Foundation grant of $40,000, the association will open a factory to make fruit and vegetable preserves, using the produce of small farmers in the region. This is the group's first business venture and will be the town's only locally-owned enterprise. The project depends not so much on the Foundation's grant, but on the efforts and commitment of private groups in Lujan.

The local initiative of the people of Lujan was commended in an editorial in the internationally renowned Argentine newspaper *La Prensa*:

> The Amigos de Lujan, the Association of Vegetable Producers, the Institute of Social Development of Cuyo, and the Inter-American Foundation all deserve special commendation for their enterprising spirit. These non-profit organizations combined forces to revive a dying industry. Many places in Argentina, following the example of Lujan, could overcome their problems by taking advantage of local resources and depending on private initiative rather than expecting all solutions to come from government.

My work with the Foundation, and especially the people associated with it here and abroad, has been one of the most rewarding and gratifying experiences I have ever had. For this I am eternally grateful.

# THE PRESIDENT'S REPORT

The lives of poor people in Latin America and the Caribbean are never easy. Even in the best of times, they are characterized by uncertainty, scarcity, and back-breaking work. During the past year, however, the U.N. Economic Commission for Latin America calculates that the economic growth rate for the region was the lowest in 35 years. As a result, unemployment was unusually high in most countries. The effects were particularly hard on the poor, who must always struggle to improve their situations but had to devise new ways simply to survive the past year.

The people who confront poverty have limited choices. Some of the most desperate—and some of the most dynamic—among the poor leave their countries to seek opportunities for employment elsewhere. They include the Mexicans crossing the Rio Grande into the southwestern United States; the Haitians crowding into boats for Florida; and the Salvadorans and Guatemalans trekking into Mexico, the Colombians into Venezuela, and the Bolivians and Paraguayans into Argentina. And for the tens of thousands who migrate across international borders, there are hundreds of thousands who seek to improve their lives, or their children's lives, by moving from the countryside to the expanding towns and cities of their own countries. Over recent decades, these internal migrants have transformed most of Latin America from rural to urban societies.

Although the majority of Latin Americans now live in towns and cities, the poorest people in the region continue to work and live mainly in rural areas. Approximately half of the rural people live in severe poverty, as compared with a quarter of the urban population. These rural poor are small farmers, sharecroppers, and wage laborers. For Latin America as a whole, two-thirds of the rural poor are landless. Small farmers, by virtue of their ownership of land, are usually not the poorest of the poor; but even they are increasingly forced to seek wage labor on larger farms to supplement their meager incomes. If they remain in the countryside, they must contend not only with the vicissitudes of the weather but also with the increasing costs of agricultural inputs, the fluctuating prices and uncertain markets for their products, and the economic policies of governments susceptible to growing urban pressures.

The urban poor are most likely to be located in small towns, but they are also in overcrowded tenement houses and burgeoning squatter settlements in metropolitan areas. A large and growing proportion of the urban poor—whether salaried employees, self-employed, or family members of the self-employed—participate in the small businesses which make up the informal sector. They do not receive the minimum wage; nor are they covered by the social security system. Nevertheless, they are able to make a living by providing goods and services at competitive prices to their neighbors or to firms in the more formal industrial sector. They often "save" on housing costs by squatting on vacant land and building their own dwellings. Their chances of eventually obtaining electricity and potable water are much better than in the countryside. So, too, are their chances of sending their children to school and of gaining access to health care.

### Role of the Foundation

By any quantifiable measure, the role of the Inter-American Foundation in alleviating poverty in Latin America and the Caribbean is small. The Foundation's budget of $26 million last year is insignificant in relation to the needs of 100 million poor people in the region. Our funds are minuscule when compared with the resources of the World Bank, the United Nations Development Program, the Inter-American Development Bank, and the U.S. Agency for International Development. The Foundation's Congressional appropriation was just 1.5 percent of all U.S. government assistance to Latin America and the Caribbean, and 0.2 percent of all U.S. assistance to developing countries, including contributions to the multilateral lending institutions. Nevertheless, the Foundation fulfills a special role, one for which its small size may be a peculiar asset.

Unlike any other U.S. government or multilateral development institution, the Inter-American Foundation works primarily through private, nongovernmental organizations on a people-to-people basis. We provide direct support for self-help initiatives of poor people in Latin America and the Caribbean, preferring groups whose projects will serve as examples for development efforts elsewhere in the region. We expect the groups to demonstrate their commitment to the projects by contributing their own resources, by raising local counterpart funds, and by accounting responsibly for our funds. We also hope that they will learn from the project experiences and share that learning with the Foundation and with other interested organizations. We follow each Foundation-supported group, suffer through their disappointments, and celebrate their accomplishments. At the same time, we are committed not simply to the support of specific projects but to the testing and promotion of a set of ideas about grassroots development.

### Guiding Assumptions

Several assumptions have guided the Foundation's approach to development and have been tested during our first decade of experience. First, we remain impressed by the human quality and economic promise of the people whose efforts we support in Latin America and the Caribbean. The small farmers, sharecroppers, migrant laborers, itinerant vendors, market women, and artisans with whom we work are resourceful, energetic, and committed. Remote rural communities and urban squatter settlements are filled with people who are struggling for survival and advancement against great odds—like the wind-chafed Indian women in the Andean highlands who never cease spinning their yarn while tending sheep, walking to the market, or nursing their infants. We are moved by the dignity and resilience of such people, and by their capacity for hard work.

Second, we believe that organization and cooperation among the poor are essential for the success of their self-help efforts. By combining their meager resources and working together toward commmon ends, poor people can realize economies of scale, gain increased bargaining power, and pave the way for pursuing more ambitious goals. The significance of such organization and cooperation is underscored by the consequences of its absence. Isolation reinforces poverty, ignorance, and despair, and turns poor people against one another in their competition for scarce resources. By joining together in marketing their crops, small farmers can expect a better return for their labors. By pooling resources for bulk purchases through cooperative stores, remote communities can obtain staples at lower prices. Neighborhood associations in urban settlements can resolve local disputes and mobilize energies to collect rubbish, to construct schools, to install electricity and water, and to improve housing.

Third, we have seen that governmental and commercial institutions in the region pass up opportunities for investment in projects of the poor which could pay off economically and socially if given a chance. Among the obstacles to such investment are stereotypical views that underestimate what groups of people with low incomes can accomplish. A further impediment is the fact that poverty is nearly always coupled with little formal education, limited management experience, and few physical assets to serve as equity. By providing seed capital for projects, we seek to assist groups in leveraging support from other sources and to demonstrate that the poor can devise and manage their own development projects. Our grants show that groups of poor people will make sacrifices for long-term objectives; that they can put aside savings from woefully small incomes for developmental purposes; and that they can become worthy credit risks for financial institutions which had not previously dealt with them.

Fourth, our charter does not confine our grantmaking to economically productive enterprises. The Foundation was created by Congress also to support the social aspects of development. Grants for community-based activities in education, nutrition, health, and housing are meant directly to improve the quality of life of poor people. We have learned, however, that these social investments can contribute importantly to economic development. In fact, we have seen that economic and social development must go together if either is to prosper for long. We are impressed by the extent to which low-income groups themselves are devising strategies for providing their communities with social services. The private initiatives of the poor will not completely supersede government responsibilities in these areas; but government programs, to be effective, must complement and support self-help efforts.

Finally, we believe that strong, active grassroots organizations of poor people are important democratic institutions in their own right, and that they are vital to functioning democracies at the national level. Rural cooperatives, neighborhood associations, trade unions, and other such organizations increase members' stakes in their societies. They also serve as training grounds for participation, leadership, and collective decision-making about economic and social matters. The prospects for democracy in the region depend not only on whether citizens vote for their representatives. They also depend on whether people of varying means and needs can voluntarily work together to solve their own problems and effectively register their legitimate demands with the government. Grassroots organizations can express and mediate people's aspirations, and increase the likelihood that governments will respond to local problems. And when governments are authoritarian, such organizations can still accomplish some of their goals, and shelter a modicum of freedom, participation, and autonomy for people within their communities.

### Setbacks and Accomplishments

Over the past year, the Foundation and its grantees experienced our share of disappointments. In Central America those disappointments related most often to the disruptions that widespread violence inevitably inflicts on the poor. Many of the groups with which we once worked in El Salvador have suffered directly from the conflict there. In some cases, the groups have disbanded; in others, they have been forced to curtail their developmental activities. There were setbacks elsewhere, too. In the 1970's, the Foundation had supported experiments in Peru and Chile to develop worker self-managed enterprises. Despite sacrifices by their worker-owners, many of these firms, like numerous other small companies, have failed to survive the combination of foreign competition and world recession. In Jamaica lower sugar prices, higher costs, and the government's reorganization of the sugar sector led to the dissolution of the national sugar workers' cooperative, whose education program we had assisted.

Despite these disappointments, we were encouraged by the continuing accomplishments of most Foundation-supported groups and by the redoubled efforts of others who have fallen short of their aspirations. More than 800 of the 900 organizations which the Foundation has funded over the past ten years still exist as vital forces for participation and development in their communities. In Colombia a self-help housing organization leveraged seven times its initial grant from the Foundation last year, and financed the construction of 435 houses with commercial and governmental credit and personal savings. In the Dominican Republic the national cooperative confederation mobilized local resources for its credit fund that were three and a half times the amount of its Foundation grant. Over the past four years, it has made loans to its members totaling more than ten times the grant. In Colombia, Mexico, and Ecuador, the ideas and methods of Foundation-supported programs were adopted by ministries of education seeking to reach Indian communities.

In Uruguay a national federation of wool producers inaugurated a new processing center which is serving more than 3,000 farmers. The federation ranks among the top five wool exporters in Uruguay, assuring small producers a price competitive with that of large landowners. In the Dominican Republic a community development foundation inaugurated two centers for tropical organic farming and appropriate technology. The centers now serve as "schools" for training hundreds of Dominican small farmers in new techniques for increasing productivity while lowering costs and protecting the environment. In Peru a cooperative of artisans from 13 communities near Huancayo has introduced improvements in the home-made looms of its weavers, organized a common outlet for their products, and added approximately 50 percent to their basic incomes from farming. A revolving loan fund in Paraguay freed a network of 1,000 small cotton farmers from the local creditors to whom they had been obligated to sell their crops. By cooperatively marketing the cotton, the farmers added 30 percent to the price they obtained. SISTREN, a group of Jamaican women street cleaners who had formed a theater, stole the show at the Caribbean festival of the arts in Barbados last summer. They continue to inspire Jamaican audiences with their dramatization of the situations of poor women.

In 1981 the Foundation observed its tenth anniversary. In our first decade, we gave priority to supporting a variety of approaches to grassroots development throughout the region. Over the last year, we have given increased attention to evaluating those experiences, sorting out what has and has not worked, and sharing the lessons with our grantees and with other development organizations. The products of these efforts will come slowly; but they have already resulted in reports on the Foundation's work in rural credit, on our experience in community health, and on our graduate fellowship and internship programs. Last year we also published a summary of the lessons from our experience with grassroots organizations and a statistical profile of our first ten years of grant-making. Other evaluative studies are well advanced on poor women in development, worker self-managed enterprises in Peru and Chile, small businesses in the Caribbean, and cultural expression and its importance for grassroots development in Bolivia. In addition, we are intensifying our efforts at evaluating individual projects.

At times the lessons from our experience will be spread through publication of evaluations. More often we expect our grantees to speak for themselves. For example, we have commissioned a series of six oral histories on Foundation-assisted groups throughout the region. In Colombia last year, we helped to finance a meeting of some 28 community-based groups, including 20 grantees, to discuss their differing approaches to common problems. We also helped a Colombian from an innovative program for the rehabilitation of street children to advise juvenile justice officials in the United States and educators at the Organization of American States. Similarly, the former manager of a successful self-help housing program in El Salvador is serving as a resident consultant to a private foundation in the Dominican Republic. Such exchanges are an important part of spreading the word about what has worked in grassroots organization and development.

The following pages briefly discuss each of the grants which the Foundation made over the last year, but they can only begin to evoke the excitement which we feel about the groups and the commitment which the groups feel toward their projects. Last year was a difficult year for poor people in the hemisphere. By and large, they had to struggle hard just to survive; and when they advanced, it was often against long odds. For that reason, their efforts at grassroots development were all the more worthy of our support; and their accomplishments, the more deserving of our respect.

# PROGRAM REVIEW

In fiscal year 1981, as in past years, the Inter-American Foundation allocated the largest share of its funding to projects for rural and agricultural development. The principal beneficiaries were small, low-income farmers working to increase their production and expand their markets. Some projects supported off-farm enterprises to generate new sources of income and employment in depressed rural areas. The Foundation gave increasing attention to the urban poor through grants for the development of small businesses, the strengthening of community and neighborhood organizations, and the expansion of opportunities for vocational education and training. Other areas of Foundation grant-making included research and analysis of development issues affecting the poor and disadvantaged, legal assistance to peasants and workers, and cultural expression reinforcing social and economic development.

Overall in fiscal year 1981, the Foundation approved 220 new grants and 105 supplements to previous grants. These funding actions resulted in project support totaling $21.9 million, compared to $23.2 million in FY 1980, $17.1 million in FY 1979, and $11.9 million in FY 1978. Grants totaling more than $2 million were made in two countries, Colombia and Chile; grants for more than $1 million were made in seven other countries—Peru, Mexico, Bolivia, Paraguay, Argentina, the Dominican Republic, and Guatemala. The Foundation's funding in the Caribbean increased from $2.6 million in FY 1980 to $4.7 million in FY 1981.

**Agricultural and Rural Development**

A majority of the rural population of Latin America and the Caribbean live in conditions of extreme poverty. The incomes, wages, and productivity of small farmers and rural workers are low, while rates of unemployment and under-employment are high. The rural poor have limited access to most government services whether for credit and technical assistance or for health and education. The situation is not improving in most countries. Small farmers are being displaced from their land, either to join the ranks of rural laborers working at substandard wages or to move to towns and cities where employment prospects are uncertain for unskilled and often illiterate migrants.

There is, nonetheless, a vitality and resilience among the rural poor in Latin America and the Caribbean that sustain their continuing struggle to improve their lives and those of their families and children. The Foundation's work builds on that vitality and resilience as it assists small farmers, peasants, and agricultural laborers in their efforts to devise technologies appropriate to their needs, to experiment with new forms of social and economic organization, and to create new sources of income and employment. Last year the Foundation committed $8.3 million to projects for rural development, representing nearly 40 percent of its funding.

Many Foundation grants were made directly to local organizations of small farmers. Projects in Belize, for example, are financing the efforts of two cooperative groups to expand their production, one in rice and the other in honey. Grants in Dominica and St. Kitts are assisting fishing cooperatives to organize and to initiate educational programs for their members. Two peasant communities in Paraguay received Foundation support: one to expand production of charcoal, the other to establish a nursery for orange trees.

The Foundation also supported regional associations of community groups and cooperatives. A cooperative federation in Guatemala, for example, received Foundation funds to organize a fertilizer importing service for its members. Grants to small farmer federations in Colombia, Panama, Bolivia, and Peru helped to establish loan funds and educational programs for affiliated cooperatives. A federation in Honduras received a grant which financed the expansion of its programs of technical assistance and education to 26 cooperatives.

Other grants went to organizations providing services to small rural groups. A private development organization in Haiti is using Foundation funds to work with low-income farmers in coffee production and marketing, to maintain a demonstration farm and animal husbandry center, and to extend its community health activities. Service organizations in Uruguay and Colombia received grants to assist small farmers to improve the marketing of their produce. A grant in Chile helped establish an experimental program of crop insurance, while projects in Paraguay, Colombia, and Argentina contributed resources to revolving loan funds for small farmers. Grants in Mexico and Guatemala are assisting the development, testing, and dissemination of new, low-cost farming techniques.

Foundation grants are also supporting the development of rural enterprises, mostly in the area of food processing, that provide employment for displaced agricultural labor and markets for small farmer produce. An Indian community in the Peruvian highlands received funding to start a dairy and cheese-making operation. A grant in the Dominican Republic financed the establishment of several bakeries. With Foundation support, a rural cooperative in Bolivia started a brick-making enterprise; a furniture-making cooperative in Colombia began the milling of raw lumber.

**Education and Training**

The Foundation gives special emphasis to developing the skills of the poor and increasing their opportunities for productive employment. Education and training were the principal purposes of grants totaling some $3.5 million in fiscal year 1981. In addition, more than half of the Foundation's other projects contained a significant educational component including, for example, courses in leadership and management, community and cooperative development, and health and nutrition.

Most grants for education and training went to programs of vocational training to increase the productivity and incomes of urban and rural workers and open up new job opportunities to them. Projects in Haiti, Bolivia, Nicaragua, and Chile are preparing small farmers to use new agricultural production methods. In Colombia, a grant is supporting an educational program for rural artisans and craftworkers. A project in Paraguay is assisting 66 Guarani families to acquire skills in farming, animal husbandry, and carpentry. Small grants in Jamaica and Peru are supporting programs to train unemployed youth in metal-working and carpentry. In a few countries, including Paraguay and Dominica, Foundation grants are assisting vocational programs that contain basic literacy training. And in Jamaica, a Foundation-supported project is providing retarded persons with basic skills to earn a living.

A significant number of grants contributed to education and training activities for women. In the Caribbean, the Foundation is assisting a program of administrative and vocational training for women trade unionists. Grants in Colombia, Bolivia, and Mexico are helping women's groups to organize educational programs to provide their members with marketable skills. Foundation support to a federation of agricultural cooperatives in Guatemala is being used to train Indian women in home economics, child care, nutrition, and health.

**Community Services**

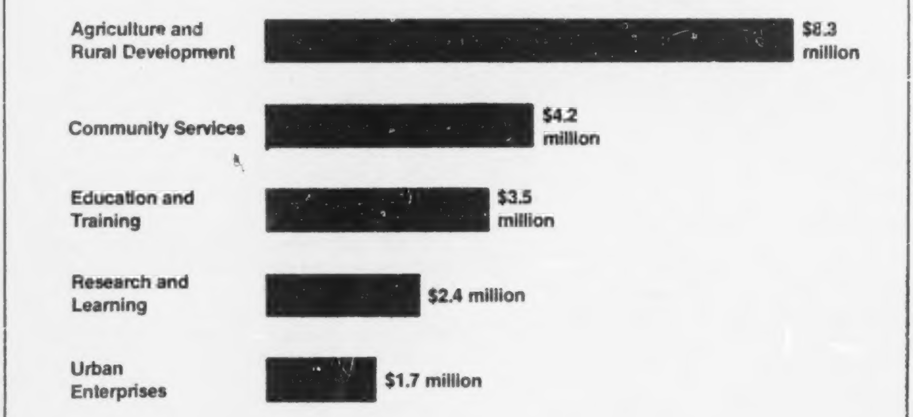
In countries throughout Latin America and the Caribbean, poor people have formed organizations to secure services for their communities and neighborhoods. Foundation grants of $4.2 million in fiscal year 1981 assisted such local organizations in efforts to improve health care, housing, and food distribution. Besides helping to provide services, the grants are also intended to strengthen the communities and organizations themselves and increase their ability to take on other tasks.

Foundation grants in support of health and nutrition projects last year assisted communities to develop programs of preventive health. Projects in Paraguay and Chile are training local health workers selected by the participating communities. A group working with several highland communities in Bolivia will provide health and education services based on traditional medicine. In Guatemala, the Foundation is assisting efforts to provide health services and training to Indian communities, and in Costa Rica, a community project to improve water and sanitation received support. A project in Haiti is training health workers to deliver eye care services to the poor.

Self-help housing programs supported by the Foundation are assisting poor families obtain decent housing at low cost. Grants in Paraguay, the Dominican Republic, and Argentina are helping residents of poor communities acquire materials and technical assistance to construct their own homes. Another grant is enabling a private foundation in the Dominican Republic to draw on the experience of a self-help housing organization in El Salvador in developing its own program.

Basic consumer items are overpriced and often

Distribution of Grants by Program Area in FY 1981



difficult to obtain in remote areas of Latin America and the Caribbean. In Colombia, St. Vincent, and Suriname, grants are enabling isolated communities to establish cooperative stores to assure the availablity of food staples and other necessities at reasonable prices.

**Urban Enterprises**

Small enterprises are a major source of employment and income for the urban poor in Latin America and the Caribbean. In fiscal year 1981, the Foundation granted $1.7 million for technical assistance, credit, and raw materials required by small urban-based businesses to expand or improve their operations.

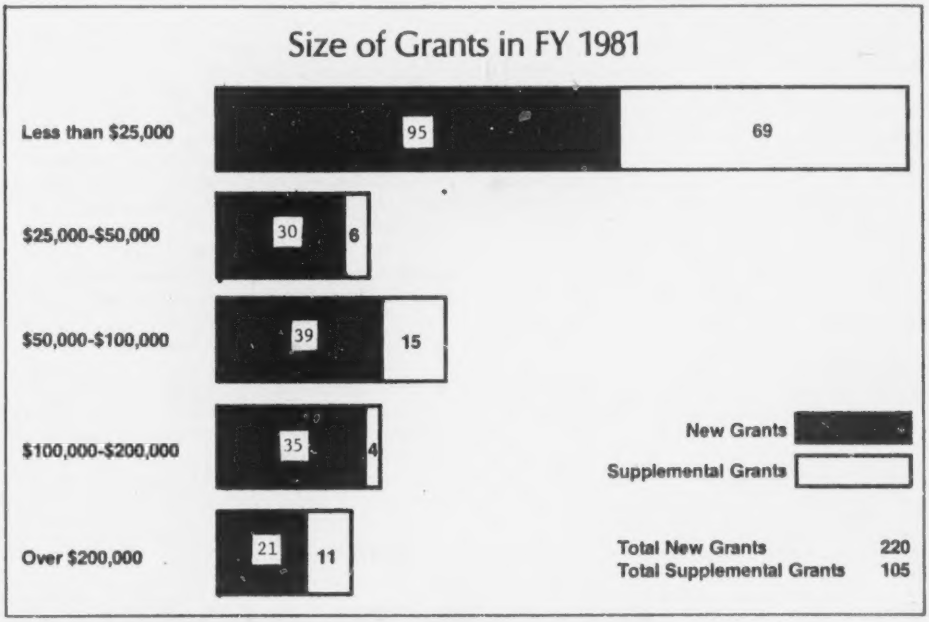
Some of the grants went directly to small enterprises or cooperatives to strengthen them financially and permit their expansion. Projects in the Dominican Republic and Mexico assisted cooperative enterprises engaged in woodworking and furniture production. In Argentina, the Foundation supported the establishment of a factory for fruit and vegetable preserves that will provide a market for the produce of farmers in the region. Grants in Peru are assisting a small business that recycles paper bags and a workshop that makes school uniforms. In Bolivia, Foundation funds enabled an association of itinerant vendors to produce their own aluminum pots; another grant helped a highland community establish a bakery.

Most of the Foundation's support for urban enterprises went to organizations that serve small businesses in Latin America and the Caribbean with credit, technical assistance, and marketing facilities. A private development foundation in the Dominican Republic has initiated a program to assist street vendors and other small entrepreneurs. Other grants are supporting private groups in Dominica and Guyana that provide diverse services to small businesses. A federation of industrial cooperatives in Honduras is using Foundation funds to offer programs of credit, marketing, and education to their affiliated cooperatives. In Jamaica, an organization of blind people has received a grant to create a loan fund to assist the business ventures of its members.

**Research and Learning**

The Foundation approved $2.4 million in grants last year for research and analysis on issues related to poverty, grassroots development, and popular participation. These grants are helping to generate new information and understanding about the problems of poor people in Latin America and the Caribbean, how the poor are affected by different policies and programs, and how they can, and do, work to improve their situations. The Foundation is also seeking to test its own ideas and approaches, and identify new ways of thinking and acting on development problems.

Most of the grants went to research centers in Latin America and the Caribbean. Researchers in Ecuador and Argentina received assistance to study the employment and living conditions of rural migrants and other urban poor. An economic research center in Chile is using Foundation funds to analyze the effects of public policies on health, housing, and social security. Grants in Uruguay and Bolivia are supporting research on survival strategies for small farmers. In Peru, one Foundation project is helping to train young social scientists in field research, and another is supporting studies of highland populations. A grant in Mexico is financing a study of food consumption among



low income groups. The Foundation also supported the participation of academics, development workers, and graduate students from Mexico in the research and training activities of a new center for U.S.-Mexican relations at the University of California at San Diego. A grant to the Woodrow Wilson International Center for Scholars helped to fund a conference on democracy and authoritarianism in Latin America and a series of seminars on the Caribbean.

Some research grants were made to groups directly engaged in development projects. In Bolivia, for example, a social action agency received Foundation funding to examine marketing problems in three highland regions. A grant to a rural training institute in Haiti supported three roundtable discussions on community development issues. The Foundation also contributed to a meeting in Peru of organizations of the physically handicapped.

### Legal Assistance

In their continuing struggle for survival and advancement, poor people in Latin America regularly face legal problems that threaten their income, livelihood, and person. Small farmers confront challenges to their land titles; workers are denied minimum wages or other labor code protections; women and minorities suffer illegal discrimination; and bureaucratic obstacles prevent the poor from taking advantage of their rights to health care and other social benefits. What they seek is the just application of existing laws.

The Foundation made grants totaling nearly $900,000 to assist private groups that are working with peasants and workers to protect their legal rights. In Colombia, a grant is supporting a group of young lawyers working on the legal problems of Indian communities. A Foundation grant in Jamaica helped establish a mobile program of legal services to reach remote areas. Other projects supported a legal aid center for migrant laborers in Ecuador and a program of legal services for urban workers in Peru. The Foundation also contributed to the formation of the Andean Commission of Jurists to help safeguard the legal rights of the rural poor.

### Cultural Expression

The Foundation makes a small number of grants each year to encourage cultural expression in poor communities, to preserve and develop traditional arts and handicrafts, and to strengthen cultural identity among Indians and other ethnic minorities in the region. In fiscal year 1981, 16 such projects were approved for $850,000. Some of these activities, including support for artisan groups, had commercial purposes as well; others were related to community organization efforts or to educational programs.

A Foundation grant in Jamaica is allowing community development groups to experiment with drama presentations in their educational projects and assisting public schools to organize theater programs. Another grant, to an art school in Jamaica, helped pay for the preparation of *Maddah Goose*, a book of children's nursery rhymes written in local dialect. In Ecuador, the Foundation is assisting efforts to preserve Indian and Black folklore traditions. An artisan organization in Bolivia is using Foundation support to introduce new techniques of knitting and sewing, and a women's theater group in Jamaica received assistance to establish a textile design and silk screen workshop.

# REPORTS FROM THE REGIONS

## ANDEAN REGION

The Foundation approved projects totaling $6 million in the Andean region. Most funding went to peasant production and marketing associations, consumer groups, small urban-based businesses, and service organizations offering training, education, and legal assistance. Women manage many of these projects.

Colombia, with its tradition of local development efforts, received grants for $2.7 million, accounting for 45 percent of all funding in the region. Projects supported small farmer groups, such as the women of the Kamsa Indian community of Putumayo, who received a grant to increase vegetable and milk production. On the north coast, a grant provided working capital to a rice production cooperative to operate its own mill. A cooperative marketing project in the Cauca Valley, the result of a four-year organizational effort by local leaders, will help some 30 communities to sell their agricultural products directly to urban consumers.

Grants totaling $280,000 were made in Ecuador. A grant in the Amazon region is assisting 500 Indian families to organize an agricultural production cooperative. Another grant is helping a program in Quito that provides shelter, training, and legal assistance for migrant laborers. A project in Esmeraldas supports an effort to collect and catalogue Black history and folklore in the region.

Organizations in Peru received grants totaling $1.6 million. The Foundation supported rural production cooperatives, consumer stores, and worker self-managed enterprises. Several grants are funding projects in Quechua-speaking peasant communities that have been bypassed by most development efforts. In the *pueblos jovenes*, Lima's impoverished slums, the Foundation is assisting a group of unemployed workers to develop a scrap paper recycling business. A group of women lawyers in Lima received support for a program of legal assistance to urban workers.

The Foundation approved grants for $1.4 million in Bolivia. Most projects are assisting the income producing activities of poor people. A small grant has enabled a group of itinerant vendors to produce their own pots and pans for sale. Several grants are supporting educational initiatives. The Foundation funded an adult training program in which teachers travel to market towns and provide courses to Aymara Indians without interrupting their agricultural work. Rural women's organizations were supported in five different regions of Bolivia. In southwestern Bolivia, a Foundation grant is assisting a cooperative to improve the production and marketing of quinoa, a nutritious native grain which was widely grown in pre-colonial times.

The Foundation approved only one grant in Venezuela last year. It was for $85,000 to support a regional association of peasant farmers in the destitute eastern region of the country.

## BOLIVIA

*New Grants*

Artesanias La Khochalita
$98,115 Two years
La Khochalita, a self-managed artisan association, is expanding and improving its handicraft production. The grant includes funds for training in technical and administrative skills and for purchasing new equipment and buying wool in bulk. (BO-082)

Instituto Nacional Khechwa Aymara (INKA)
$118,222 Three years
The Instituto Nacional Khechwa Aymara is conducting an experimental health care and education project based on the traditional knowledge of the Andean people. Funds are paying for the establishment of health education centers in two communities and the training of local health workers. (BO-097)

Central Regional de Cooperativas Agropecuarias "El Ceibo", Ltda.
$198,000 Two Years
This regional cooperative association of peasant farmers is improving the processing and marketing of cacao beans. Funds have been used to build drying and fermenting facilities, to conduct technical and social development courses, and to purchase vehicles. (BO-098)

Cooperativa Industrial Santa Rosa, Ltda.
$6,238 One year
The cooperative will construct, equip, and operate a small bakery in La Paz that will provide employment and increased incomes for the cooperative's 22 members. (BO-102)

Cooperativa Agricola Artesanal "Exaltación", Ltda.
$17,500 Two years
The Cooperativa Exaltación will establish a small brick-making factory owned and managed by its workers. Clay from the cooperative members' jointly held lands will be the primary raw material. The project will create a new source of employment for impoverished day laborers and enable the cooperative to expand its educational program. (BO-103)

Agrocentral
$159,065 Two years
Agrocentral, a federation of 12 cooperatives in Chuquisaca, is organizing mobile teams to conduct education programs for member groups. The grant will also provide support for technical assistance and a loan fund for community projects. (BO-106)

Centro Femenino del Club de Madres
$42,086 Two years
The Centro Femenino is strengthening and expanding its network of mothers' clubs through an educational program and construction of new central facilities. Training will be offered in literacy, health, nutrition, handicrafts, accounting, and cooperative administration. (BO-108)

Centro de Educación Técnica-Humanistica-Agropecuaria (CETHA)
$80,250 Two years

The Centro is expanding its mobile adult education program in primary and secondary studies, vocational training, and agriculture. The training programs will reach the Aymara population without interfering with the agricultural cycle. (BO-109)

Cooperativa Porvenir
$13,342 One year
The group has opened a workshop on the outskirts of La Paz to produce clothing for sale in low-income neighborhoods, providing employment for 19 men and women who are recent migrants from rural areas. (BO-113)

Centro de Estudios de la Realidad Económica y Social (CERES)
$130,680 Two years
This research group is analyzing subsistence strategies of small farmer households in the Cochabamba region. The group will determine the importance to the small farmer economy of agricultural and non-agricultural activities. (BO-114)

Cooperativa S[illegible]
$13,500 Two years
The cooperative is organizing a community store that will offer basic consumer items and agricultural inputs at reasonable prices. The project also includes funds for courses in cooperative management. (BO-115)

Centro de Audiovisuales Educativos
$58,000 Two years
The Centro de Audiovisuales Educativos is expanding its production of educational slide programs. Presentations will be prepared on health, sex education, agriculture, leadership skills, and Bolivian history for development programs serving poor and often illiterate people. (BO-116)

Central de Cooperativas Agropecuarias "Operación Tierra"
$105,726 Three years
The project is introducing new processing technology and improving the marketing of quinoa, a grain native to the Andean highlands. The Central will conduct an educational program for members and organize regional meetings with other quinoa producers to discuss common problems. (BO-117)

Centro de Promoción y Formación de la Mujer
$69,934 Three years
The project encourages cooperation among groups from two regions of Bolivia. The Centro will develop exchanges of food products and medicinal plants, and will conduct training programs in health, nutrition, crafts, and cultural expression. (BO-119)

Pedro Ovio Martinez
Juan de Dios Yapita Moya
$5,000
Foundation funds enabled a Quechua and an Aymara scholar to attend courses and workshops at Cornell University. (BO-121)

Asociación Departamental de la Mujer Campesina de Oruro (ADEMCO)
$6,947 One year
ADEMCO will organize and equip a training center and offer courses in crafts and rural administration to members in three altiplano provinces. (BO-122)

Asociación de Vendedores Ambulantes Rurales de Ollas de Aluminio (AVAROA)
$18,400 Three years
Itinerant vendors of pots and pans will manufacture their own wares for sale. Control over production will allow the vendors to increase their profits from the sale of pots in rural fairs. (BO-125)

*Supplemental Grants over $10,000*

Cooperativa Agrícola Integral Mineros (CAIM)
$69,271
The Cooperativa is expanding its services to reach more rural communities. CAIM will use profits from a consumer store to set up an agricultural loan fund for member communities. (BO-051)

Radio San Gabriel
$89,300
Radio San Gabriel will continue to offer health education and services to more than 100 communities in the Bolivian highlands. (BO-072)

Acción Cultural Loyola (ACLO)
$30,300
Acción Cultural Loyola (ACLO) is studying agricultural markets in Chuquisaca, Potosí, and Tarija. Results of the research will be used to help the Cooperativa Integral Campesina (COINCA) improve the marketing of its products. (BO-074)

Centro de Promoción Campesina Ayni
$15,300
The Centro is consolidating its training center in La Paz and organizing training facilities in three rural communities. Courses are being offered in accounting, health, literacy, rural unions, economics, and history. (BO-086)

## COLOMBIA

*New Grants*

Asociación Colombiana para el Estudio de la Población (ACEP)
$164,000 Two years
Under the sponsorship of ACEP, Magdalena Leon de Leal, a Colombian sociologist, is organizing a two-year educational program on problems of poor women in the Colombian labor force. Activities include publication of articles, organization of training seminars for personnel of Colombia's major development agencies, and an education and legal assistance program for domestic servants in Bogota. (CO-189)

Fundación Orientación Servicio Juvenil
$5,000 One Year
Irenarco Ardila shared with U.S. educators and juvenile justice authorities his nine years' experience working with the *gamines*, or street youth, of Bogota. (CO-196)

Cooperativa de Producción Agrícola de Bayunca, Ltda.
$12,600 Three years
The Cooperativa is expanding its education program in a small rural community near Cartagena and will continue efforts to establish an agricultural production and marketing program. Funds also paid legal fees for the cooperative to defend its land title. (CO-197)

Federación de Cooperativas del Cauca
$304,448 Three years
The Federación will provide technical assistance to member and non-member cooperatives throughout Cauca to strengthen their administrative capabilities. A rotating credit fund will provide low interest loans to member cooperatives and generate revenue for the federation. (CO-198)

Cooperativa de Productores y Trabajadores de Bolivar, Ltda (COOPROTRABOL)
$110,180 Two years
COOPROTRABOL, a rice milling and marketing cooperative, will operate its mill on a year-round basis. Funds will be utilized for production credit to producers and for the purchase of harvested rice from cooperative members for milling. (CO-200)

Fundación Educadora San Nicolás, Comunidad por los Niños
$147,440 Two years
The Fundación is supporting activities in rural and urban communities to address problems of children from poor families. (C0-204)

Estudios Rurales Latinoamericanos
$10,000 Two years
The grant supports efforts to increase the circulation of this Colombian journal of rural studies. *Estudios Rurales Latinoamericanos* is the only Latin American journal concerned with rural problems. (CO-206)

Cooperativa de Trabajadores Industrias y Artesanias Varias Lid del LLano, Ltda. (COOTRALID)
$9,480 One year
COOTRALID, a woodworkers' cooperative in Villavicencio, has enlarged its workshop and begun to process raw lumber for sale to local woodcraftsmen. (CO-208)

Organización de Mercadeo del Valle del Cauca
$472,798 Three years
This regional peasant organization is initiating a marketing program to distribute agricultural goods directly from peasant producers to urban consumers. The profits will strengthen the organization's ability to provide services to several thousand families in member peasant organizations throughout Valle. (CO-210)

Empresa Comunitaria Jabotiyama
$18,150 Three years
The grant will help increase the agricultural production and organizational capacities of this community enterprise of Kamsa Indian women in the Sibundoy Valley. (CO-212)

Empresa Comunitaria Bengbe Botamanine
$13,800 Three years
This grant is also directed to increasing the agricultural production

and organizational capacities of a community enterprise of Kamsa Indian women in the Sibundoy Valley. (CO-213)

Instituto Femenino de Promoción Social Rural Diversificado Maria Auxiliadora
$60,000
One year
The Instituto, a women's training center, will improve its educational facilities and strengthen its economic base. The Instituto teaches rural women leadership and vocational skills, and encourages community development efforts. (CO-214)

Coordinación Colombiana de Trabajo Voluntario (CCTV)
$80,760
Three years
The CCTV and the Agencia del Voluntariados de Bogotá y Cundinamarca is initiating a training program for women in the *barrio* of Patio Bonito in southwest Bogota. The program will help strengthen a women's association to conduct economic and social activities in the *barrio*. (CO-215)

*Supplemental Grants over $10,000*

Fundación para las Comunidades Colombianas (FUNCOL)
$424,456
The Fundación is continuing its legal aid services to Indian communities in Colombia. FUNCOL also produced a documentary film on the first conference of Colombian Indians. (CO-083)

Centro de Estudios Comunales Aplicados (CECA)
$306,450
The Centro de Estudios Comunales Aplicados (CECA) provides technical assistance to community-based housing projects organized and carried out by neighborhood groups in Pereira and Bogota. (CO-119)

Grupo de Producción y Consumo Paloblanco
$19,380
The Grupo will expand its workshop and purchase six new sewing machines. Profits will be used to establish a community store and clinic. (CO-120)

Asociación Colombiana de Promoción Artesanal
$211,119
The Asociación is organizing an educational program for rural artisans and helping the artisans to develop their own organization. (CO-121)

Corporación Integral para el Desarrollo Cultural y Social (CODECAL)
$11,329
The grant helped pay for CODECAL's production of educational materials for use in rural areas. (CO-133)

Fundación para el Desarrollo (FUNDER)
$93,186
The Fundación is increasing supplies for its consumer stores and will sponsor a regional meeting of peasant leaders. (CO-169)

Centro San Pedro Claver
$72,615
This small farmer group is securing land titles and establishing a community agricultural enterprise near the town of Arroyo Piedra on Colombia's north coast. (CO-171)

## ECUADOR

*New Grants*

Programa de Antropologia para el Ecuador
$53,330
Two years
The Programa de Antropologia is helping folklorist Juan Garcia to collect and catalogue traditional Black folklore in two areas of Ecuador. (EC-074)

Programa de Antropologia para el Ecuador
$12,400
One year
The Programa de Antropologia will publish three studies on Ecuadorian society. (EC-075)

Vicariato Apostólico de Esmeraldas
$14,400
Two years
The Vicariato is developing a collection of books and documents on the social and economic problems of Blacks and Indians in Esmeraldas. (EC-076)

Centro de Investigaciones y Estudios Socio-Económicos
$101,700
Two years
The Centro will conduct a study of temporary migrant laborers in Ecuador. (EC-080)

Instituto Cooperativo Ecuatoriano de Educación y Desarrollo
$7,745
One year
The Instituto is providing training and technical assistance to the Cooperativa Te Oriente. (EC-081)

Cooperativa de Producción Agropecuaria "San Pedro," Ltda.
$40,050
Three years
The grant supports cultural preservation activities in this agriculture production cooperative of 500 Quechua-speaking Indian families in the Amazon region. (EC-082)

Hospederia Campesina "La Tola"
$50,100
Two years
The Hospederia is establishing a pilot legal aid program for temporary Indian migrants in Quito. (EC-083)

## PERU

*New Grants*

Central de Cooperativas Agrarias del Valle de Chancay Huaral-Aucallama, Ltda. 107
$167,660
Three years
This regional federation of agricultural cooperatives is expanding its supply of raw materials for 22 member cooperatives. It will also establish a consumer store, improve marketing operations, and secure technical assistance and training. (PU-123)

Comunidad Campesina de Huasta
$143,190
Three years
The Comunidad Campesina de Huasta, an indigenous highland community, is establishing a dairy on communal lands. (PU-126)

Confección San Agustin
$34,400
One year
Confección San Agustin, a worker self-managed factory in northern Peru, is expanding its production of low-cost clothing. This group is also providing educational programs to its members. (PU-134)

Comunidad Campesina San Pedro de Morrope
$09,535
18 months
The Comunidad Campesina will mine, process, and market the gypsum deposits on its communal lands. The revenues will be used for social and economic development projects. (PU-135)

Asamblea Nacional de Propiedad Social
$53,400
One year
The Asamblea is providing technical assistance and training to worker-managed enterprises. (PU-136)

Central de Cooperativas Agrarias de Producción del Valle del Chira Ltda., No. 003
$62,470
Two years
The Central is conducting training programs in cooperative management for its 22 members and 10 non-affiliated cooperatives in the Chira and Hermoso valleys. (PU-138)

Ondores
$23,220
One year
This worker-managed enterprise in a Lima slum purchased machinery and a truck to expand its scrap paper recycling business. (PU-141)

Misión Juridica y Social de Paz
$43,000
Two years
Misión Juridica y Social de Paz is providing legal training to community leaders in Lima's poor neighborhoods. (PU-142)

Pontificia Universidad Católica del Peru
$104,000
Three years
The University is providing grants to master's degree candidates for field research on issues of poverty and grassroots development. (PU-143)

Consejo Integrado para el Desarrollo Campesino (CIDESCA)
$98,730
Two years
CIDESCA, which provides development assistance to impoverished peasant groups in Chiclayo, is expanding its training program for local health workers, members of community health committees, and

cooperative store managers. CIDESCA will also assist three communities to expand land under cultivation and increase agricultural production. (PU-144)

Centro de Promoción Social Spartacus (CENPROS)
$56,140 18 months
The Centro is providing organizational and technical assistance to development programs of peasant communities. (PU-145)

Liga Agraria José Carlos Mariátegui, Base Pilcuyo
$45,200 Two years
The Liga, which is managed by an association of Aymara peasant communities, will expand its consumer store network in southern Peru from 12 to 21 communities. (PU-149)

Comunidad Reconocida de Chipiani-Casani
$700 One year
The grant paid for the purchase of tools for a carpentry workshop of the Comunidad Reconocida de Chipiani-Casani. (PU-150)

Consejo Peruano para la Autogestión
$20,080
Representatives of worker self-managed firms held a three-day seminar to exchange experiences and identify areas of possible collaboration. (PU-151)

Central de Cooperativas Agrarias Norte Chico, Ltda.
$84,800 Two years
The Central will establish an agricultural and technical assistance department to serve member cooperatives and other low-income farmers in a region severely affected by crop diseases. (PU-160)

Asociación de Promoción y Desarrollo Social (APDES)
$53,207 One year
APDES is studying city management, health services delivery, and employment generation in the low-income district of Comas, near Lima. (PU-168)

Centro de Estudios de Derecho y Sociedad (CEDYS)
$5,000 One year
The Centro will complete a research project on peasants and the legal system that will suggest new approaches to legal assistance in rural areas. (PU-169)

Cesar Pastor Ortega
$10,000 One year
This grant supports a study on the effects of the agrarian reform on small coffee producers in central Peru. (PU-173)

*Supplemental grants over $10,000*

Central Nacional de Servicios Contables de las Empresas Campesinas (CENASCONTEC)
$315,000
CENASCONTEC is continuing its training and accounting services for affiliated cooperatives throughout Peru. (PU-057)

Instituto de Estudios Peruanos (IEP)
$80,000
The Institute is completing a series of studies on the social and economic problems of the rural poor in Bolivia, Ecuador, and Peru. (PU-071)

Comité de Turismo de Taquile
$14,000
The Comité is helping four cooperative groups in Taquile to promote tourism to the island. (PU-093)

Fraternidad Cristiana de Enfermos
$28,835
The Fraternidad Cristiana de Enfermos assisted a group of disabled persons produce a film on the situation of the handicapped in Peru. (PU-112)

Asociación de Defensa y Capacitación Legal (ADEC)
$94,000
The Asociación is continuing its legal assistance for organized workers and slum dwellers. (PU-121)

## VENEZUELA

*New Grants*

Centro al Servicio de la Acción Popular (CESAP)
$84,553 Two years
CESAP, a private development organization in Caracas, is providing technical assistance and training to several hundred peasant families on the Paria Peninsula. The project will help these families improve and diversify their crops and strengthen their local organizations. (VZ-033)

# CARIBBEAN AND BRAZIL

Grants in the Caribbean totaled $4.7 million in fiscal year 1981, up from $2.6 million in fiscal year 1980. The largest amounts went to organizations in the Dominican Republic, Haiti, and Jamaica, but grant funding also increased significantly in the smaller nations of the region. Many grants provided credit and technical assistance to small farms and businesses. Other projects supported programs of community health, legal services, and vocational training.

Foundation grants in the Dominican Republic for $1.7 million, the most in any year to date, accounted for more than a third of total funding in the region. As in the past, many projects were directed to organizations of small farmers. Grants are helping them to improve the marketing and processing of crops, to reduce costs by allowing bulk purchase, and to test new farming methods. Funds also went to two new programs assisting the development of small businesses in Santo Domingo. Hurricane destruction over the past two years has focused attention on the problem of shelter in the Dominican Republic. The Foundation made grants to two self-help housing programs that are experimenting with low-cost construction technologies—one in an urban neighborhood and the other in a rural settlement.

Funding also increased in Haiti, where $900,000 in grants were made. Support went primarily to programs which peasant beneficiaries designed and managed. Three grants assisted the rural development programs of local service institutions. Through leadership training, adult education, and technical assistance, these programs are helping peasant communities in crop production, reforestation, health and nutrition, and marketing.

The Foundation approved 14 projects for a total of $500,000 in Jamaica. Grants supported the provision of legal services and training to the rural poor, the creation of a fund to provide loans to the disabled to start their own businesses, an experimental program using drama as an educational aid in schools, and the development of diversified, small-scale agriculture.

The Foundation's grant-making also extended to the smaller countries of the Caribbean. In Suriname, grants enabled a credit union to establish cooperative stores and a group of hog farmers to begin processing meat products. In the Netherlands Antilles, the Foundation assisted a program to develop truck farming. Civic associations in Belize received funds to train youth in vocational skills and to strengthen community development programs. In both Belize and Dominica, support went to improve the productivity of low-income farmers, fishermen, and small entrepreneurs.

Grants are supporting region-wide programs for research on the economic and social effects of tourism and for leadership training for women trade unionists.

The Foundation was again unable to resume its program in Brazil in 1981. At the urging of private Brazilian development organizations, the Board and staff continue to explore, with Brazilian government officials, ways to renew Foundation activities in that country.

## CARIBBEAN REGIONAL

*New Grants*

Theatre Information Exchange
$15,000
The Theatre Information Exchange (TIE) is a regional organization of Caribbean drama groups which promotes theater development. This grant provided funds for TIE to hold the Third Annual Conference of Caribbean Dramatists in 1981. (CAR-053)

Caribbean Tourism Research and Development Centre (CTRC)
$229,000 Three years
CTRC is conducting research on the economic, social, and environmental impact of tourism and providing assistance to its member states in the development of the tourist industry. (CAR-056)

Ezra Dalrymple, Dominica Social Security
$575
Ezra Dalrymple of Dominica Social Security attended a four-month course on "The Principles and Practices of Social Work" at the Social Welfare Training Center at the University of the West Indies in Kingston, Jamaica. (CAR-057)

Caribbean Conference of Churches (CCC)
$6,750
The Caribbean Conference of Churches (CCC) invited representatives of grassroots development organizations to attend the CCC Annual Assembly in Curaçao. (CAR-058)

Women and Development (WAND)
$17,270
Women and Development paid for the travel expenses of 16 women from the SISTREN theater group in Jamaica to participate in the CARIFESTA Women's Symposium in Barbados. Funds were also provided for the preparation of a videotape of the symposium to be used in WAND's regional training program. (CAR-059)

Trade Union Education Institute (TUEI)
$279,000 Three years
TUEI, a branch of the University of the West Indies, is sponsoring a series of regional seminars to train 40 women trade union leaders. The participants will conduct national and local seminars for some 3,000 women trade union members. (CAR-061)

*Supplemental Grants over $10,000*

Institute of Social and Economic Research (ISER)
$10,000
The Institute is providing technical assistance and information to local groups, service organizations, and public officials in the Commonwealth Caribbean. (CAR-014)

## BAHAMAS

*New Grants*

Institute of the Arts
$6,000
The Institute conducted workshops on Bahamian art and culture. (BAH-005)

## BARBADOS

*New Grants*

Barbados Union of Teachers (BUT)
$3,770 One year
The Barbados Union of Teachers coordinated a three-week workshop on drama techniques for 60 teachers and community development leaders from six Eastern Caribbean countries. Staff members from the Jamaican School of Drama offered instruction on how drama can be used to enrich primary and secondary school curricula and community development training programs. (BA-012)

## BELIZE

*New Grants*

Council of Voluntary Social Services
$44,000 One year
The Council is training leaders from 19 private voluntary organizations and assisting them in developing programs. The Council also provides small grants to support new projects, evaluates and disseminates information about community programs and their effectiveness, and helps mobilize resources for voluntary organizations. (PE-025)

Southern Fishermen Cooperative Society, Ltd.
$19,000 One year
The cooperative is constructing processing and cold storage facilities for its commercial fishing operation. (BE-026)

St. Vincent Block Group
$31,000 18 months
The St. Vincent Block Group is working to establish a cooperative farming community to produce rice on a commercial basis. Funds were used to purchase a tractor and other tools to clear land and plant rice. (BE-027)

Belmopan Agricultural Cooperative Society Ltd.
$42,000 Two years
This cooperative of 43 farmers is conducting an experimental project in cattle raising and conservation. By using hybrid grass seeds, the farmers expect to control the native jungle grass and brush that make it difficult to cultivate the land. (BE-028)

Belize Honey Producers Federation of Cooperative Societies Ltd.
$45,000 One year
The Belize Honey Producers Federation is working to increase cooperation among the country's many honey producers. The Federation established a carpentry shop to make hive boxes and boards. (BE-030)

The Scout Association
$62,000 Three years
The association is expanding its activities, particularly skills training, in poor urban neighborhoods and rural villages. (BE-031)

Keith Wright, Department of Cooperatives
$6,000 One year
The grant is financing a study on mechanization in small farmer agriculture. (BE-032)

## DOMINICA

*New Grants*

Castle Bruce Carpentry and Masonry Cooperative (CCMC)
$4,425 One year
CCMC established a workshop to produce building materials and furniture. CCMC also plans to help reconstruct hurricane-damaged housing and provide jobs and skills training for unemployed rural youth. (DO-055)

Giraudel Farming Center
$17,532 Two years
The Farming Center offers training programs to low-income farmers in land preparation, crop rotation, land use, bookkeeping, and marketing. (DO-063)

Management Consultants Limited (MCL)
$124,400 Two years
Management Consultants Limited is providing technical assistance and training to low-income Dominicans seeking to establish small businesses. MCL expects to reduce the failure rate of small businesses and increase their ability to obtain loans from local banks. (DO-065)

Bense Farmers' Cooperative Poultry Project
$7,158 One year
The Bense Farmers' Cooperative produces poultry and eggs. The project will employ 25 people and reduce the cost of poultry products in this impoverished village. (DO-066)

Delices Farmers Cooperative Society
$6,500 One year
The 30 members of the cooperative, whose crops have been destroyed by two successive hurricanes, purchased fertilizer to increase their production of bananas. (DO-067)

Dominica Development Foundation
$5,000 One year
The grant covered part of the costs of producing a film on the destruction from Hurricane David. (DO-068)

Cottage Youth Movement
$12,854 One year
The Cottage Youth Movement is establishing a fishing cooperative to provide employment, support community development, and improve nutrition in the community. Grant funds are being used to purchase two small fishing boats, outboard motors, fishing nets and lines, and materials to construct fish pots. (DO-070)

Bourne Farmers Cooperative Society, Ltd.
$3,571 One year
The Bourne Farmers Cooperative rented a tractor to build two and one-half miles of feeder road, which will permit additional acreage to be placed under cultivation. The cooperative will maintain the road and secure the use of other construction machinery, materials, and technical assistance from the government. (DO-072)

*Supplemental Grants over $10,000*

Marigot Education Council
$18,047
The grant continues support for a secondary school that is operated by the community and offers a curriculum directed to local needs. (DO-032)

## DOMINICAN REPUBLIC

*New Grants*

Mujeres Aplicadas a la Industria (MAI)
$48,000 Two years
MAI is developing five community enterprises that will provide 60 women with full-time employment and 80 others with part-time jobs. The grant established a fund to provide small low-interest loans for the participating enterprises. (DR-051)

Servicio Social de Iglesias Dominicanas (SSID)
$40,100 18 months
Servicio Social de Iglesias Dominicanas coordinates the work of more than 600 Protestant churches involved in community development programs. The SSID is using the grant to assist six communities to build wells and two others to construct community centers. (DR-053)

Centro de Asesorías Evaluación y Estudios (CASE)
$14,800 Nine months
The Centro conducted a study of animal and mechanical traction for small farmers. (DR-057)

Cooperativa de Producción y Trabajo "Asociación de Maderos y Afines" (ASOMACOOP)
$51,500 One year
ASOMACOOP is a small woodworkers' cooperative in Santo Domingo. Grant funds complemented the members' own capital to start a program of marketing, credit, raw material supply, technical assistance, and training. The program will allow an expansion in membership from 36 to more than 100 persons and a reduction in production costs. (DR-059)

Fundación para el Desarrollo Comunitario, Inc. (FUDECO)
$280,071 15 months
In collaboration with the Instituto Nacional de la Vivienda, FUDECO is establishing a rural settlement in the village of La Cienaga for 70 impoverished families left homeless by recent hurricanes. Plans call for setting up workshops to prepare construction material; building 70

houses, a school, a park, and a sports field; and initiating various small enterprises. (DR-060)

Fundación San José, Inc. (FSJ)
$49,985 One year
The FSJ is a private organization that conducts programs of self-help housing and community development. The Fundación is using the grant to secure technical assistance. (DR-061)

Fundación San José, Inc. (FSJ)
$120,978 Two years
The FSJ is completing a project for the self-help construction of 40 low-cost homes. (DR-062)

Fundación Dominicana de Desarrollo, Inc. (FDD)
$365,600 Three years
The FDD is a national development foundation created by business and professional leaders in 1962 to provide credit and technical assistance to low-income farmers. This grant helped establish a new program for small urban enterprises. The program serves businesses with less than six employees and individual entrepreneurs such as street vendors. It is estimated that in three years the program will reach 1,200 small enterprises. (DR-063)

Instituto Técnico Salesiano (ITESA)
$1,000
The grant allowed a representative from ITESA to visit the cooperative community of Mondragón, Spain. (DR-064)

Asociación Agrícola "12 de Octubre"
$8,000 Six months
The Asociación of 50 small farmers is rebuilding its consumer store, which was destroyed by hurricanes two years ago. (DR-065)

Asociación Cultural Popular, Inc. (ACUPO)
$249,200 Three years
ACUPO was created in 1975 by Radio Santa Maria to provide technical assistance, credit, and training to small farmer organizations. ACUPO is expanding its credit program and supporting the development of 16 consumer cooperatives, numerous small animal projects, a local agricultural fair, and savings programs of producer organizations. ACUPO will also provide 30 training courses each year to approximately 300 farmers. (DR-066)

Centro de Asesorías Evaluación y Estudios (CASE)
$22,785 One year
CASE is studying the organizational structure of 180 small farmer associations in the Dominican Republic. The findings will be discussed with farmer organizations and rural development agencies. (DR-068)

Junta de Asociaciones Agrícolas El Llano
$21,950 18 months
The Junta de Asociaciones Agrícolas, an organization of 16 producer associations, provides marketing and credit programs for 450 participating farmers. Grant funds are helping them construct a small building and purchase rice cleaning and packaging equipment. (DR-070)

El Bloque de Asociaciones de Payita y Cano el Sur
$25,950 18 months
The grant to El Bloque, an organization of five producer associations with approximately 200 members, is helping to pay for the construction of a small building and the purchase of rice cleaning and packaging equipment. (DR-071)

Instituto para el Desarrollo Suroeste (INDESUR)
$62,588 18 months
INDESUR coordinates relief and development efforts in impoverished areas of the southwest region of the Dominican Republic. INDESUR is providing technical and financial assistance to community organizations to establish three bakeries and a goat-raising project. (DR-072)

Financiera para el Desarrollo y la Cooperación (FICOOP)
$6,170
This grant enabled three FICOOP representatives to participate in the annual meeting of the World Congress of Cooperatives where they presented a study on the credit programs of Dominican cooperatives. (DR-073)

*Supplemental Grants over $10,000*

CARITAS Dominicana
$107,700
CARITAS, a social service agency of the Catholic Church, is establishing a swine-raising farm. (DR-037)

CARITAS Dominicana
$15,427
CARITAS is providing low-interest loans to small farmer associations in areas affected by natural disasters. (DR-046)

Instituto Técnico Salesiano
$81,000
The Instituto is expanding its technical education programs in industrial mechanics, electronics, and graphic arts. (DR-047)

Fundación para el Desarrollo Comunitario (FUDECO)
$81,400
The Fundación is conducting research and demonstration programs on tropical organic farming methods designed for subsistence farmers. (DR-048)

## GRENADA

*New Grants*

Butler Agricultural Production Society, Ltd.
$3,500 One year
Butler Agricultural Production Society purchased seeds and plantings to expand vegetable production.
(GR-018)

## GUYANA

*New Grants*

Guyana Investment Company, Ltd (GICL)
$53,000 One year
GICL is assisting in the development of small enterprises. (GY-007)

## HAITI

*New Grants*

Holy Cross Fathers
$332,168 Three years
The Institut de Technologie et d'Animation (ITECA), an organization affiliated with the Holy Cross Fathers, is expanding its programs of adult education, leadership training, community development, and agricultural extension. (HA-050)

Institut de Consultation, d'Evaluation et de Formation de Personnel (ICEF)
$825
ICEF evaluated a proposal presented to the Inter-American Foundation by the Cooperative Agricole Cafeière et Elevage de Maniche (CACEM). (HA-051)

Mouvement de Developpement Communautaire de Pilate (MODECOP)
$189,080 Three years
MODECOP is a private community development organization which serves more than 165 community agricultural groups and eight credit unions. MODECOP is using this grant for its programs in education, credit, and coffee marketing and will initiate new programs in community health, agricultural production, animal husbandry, and food marketing. (HA-052)

Institut de Consultation, d'Evaluation et de Formation de Personnel (ICEF)
$7,685 Six months
ICEF, a private development organization, will organize two roundtable discussions on community development issues for local leaders. (HA-053)

Eye Care Haiti Ophthalmic Assistant Program (ECHOAP)
$72,929 Two years
ECHOAP is an organization dedicated to improving eye care services in rural Haiti. ECHOAP is conducting programs for training rural health workers to identify, treat, and prevent eye disease. (HA-055)

Fred Beliard and Associates
$4,448 One year
This consulting firm assisted the Mouvement de Developpement

Communautaire de Pilate (MODECOP), a private community development organization, to improve its financial management. (HA-056)

Centre Animation Rurale Polyvalent a Effect Multiplicateurs (CARPEM)
$683
Eight CARPEM members visited the Mouvement de Developpement Communautaire de Pilate (MODECOP) to learn about MODECOP's programs in agricultural production and marketing, community organization, and health. (HA-057)

Holy Cross Fathers
$267,725 Three years
This grant is enabling IDEA, a church-supported organization in Cap Haitien, to expand its program of adult education and community development in 40 communities in northern Haiti. IDEA will build a new rural training center, establish demonstration projects in agriculture and reforestation, and augment its technical assistance and credit programs for peasants. (HA-060)

## JAMAICA

*New Grants*

Jamaica Foundrymen's Association (JFA)
$11,550 One year
The Jamaica Foundrymen's Association organized a course at the University of the West Indies to help improve the skills and technology used in foundries. (JA-054)

Montego Bay Legal Aid Clinic
$174,480 Three years
The Montego Bay Legal Aid Clinic is establishing a mobile program that will provide legal services to approximately 2,000 rural residents each year. (JA-056)

SISTREN
$24,348 One year
SISTREN is a theater group founded by 13 poor women in Kingston in 1977. The grant enabled them to continue their dramatic performances while establishing a silk-screen enterprise from which they will earn a living. (JA-057)

Caribbean Institute on Mental Retardation (CIMR)
$15,330 One year
CIMR is a private regional organization that conducts training and research on the problems of the mentally and physically handicapped. The Institute is developing low-cost, simple procedures for community health personnel and family members who work with the handicapped. (JA-058)

Jamaica Society for the Blind (JSB)
$15,000 One year
JSB is a private, voluntary organization that provides rehabilitation, educational, and welfare services to the blind in Jamaica. JSB created a small loan fund to help its blind members establish small businesses. (JA-060)

Institute of Jamaica
$95,475 Three years
The Institute of Jamaica is working with the Jamaica School of Drama to develop community theater and assist primary and secondary schools to incorporate drama in their curricula. A repertory theater program is being established to raise income for this program. (JA-061)

Jamaica School of Art
$9,038 One year
The School published *Jamaica Maddah Goose*, a bilingual book of tales and rhymes in Jamaican dialect and English. Proceeds from sales will be used for scholarships for needy students. (JA-062)

Knox Educational and Community Services Foundation
$45,180 Three years
The Foundation initiated a work-study program for 180 rural students which includes training in chicken raising, coffee and citrus cultivation, and low-cost farming methods. The program is expected to raise and sell sufficient produce to become self-sustaining. (JA-063)

Sonia Jones, Kingston Legal Aid Clinic
$4,586
This grant permitted Sonia Jones, Director of the Clinic, to visit legal aid programs in the United States and Canada. (JA-064)

*Supplemental Grants over $10,000*

The Mel Nathan Institute (MNI)
$85,000
The Mel Nathan Institute, a community development organization, studied the development of the Hannah Town area of Kingston and assisted the planning efforts of its poor residents. The Institute also established a loan fund for small enterprises. (JA-051)

Production Pioneer Company, Ltd. (PPC)
$41,000
The Production Pioneer Company is studying and disseminating information about small-scale agricultural and industrial enterprises. It is also helping its members plan projects, secure credit, and arrange for training and technical assistance. In addition, the PPC established a loan fund for small enterprises. (JA-053)

## NETHERLANDS ANTILLES

*New Grants*

Agrarische Kooperatieve en Kredietvereniging (AKKV)
(Farmers' Cooperative and Credit Union of Curaçao)
$112,000 One year
This cooperative built cold storage facilities and is offering credit to its 50 members. (NA-001)

## ST. KITTS

*New Grants*

Newtown's Fisherman's Co-operative Society, Ltd. (NFCS)
$11,330 One year
NFCS is expanding its fishing operations and renovating a cold storage building. (SK-006)

## ST. LUCIA

*New Grants*

Monchy Rural Development Committee (MRDC)
$31,134 One year
The MRDC established a community store and is using the profits for community development projects. Members supplied voluntary labor to construct the community store, while grant funds purchased building materials and paid salaries for one year. (SL-001)

## ST. VINCENT

*New Grants*

Young Workers Creative Organization (YWCO)
$10,660 One year
The YWCO used grant funds for the purchase of materials for increasing crop production and operating a food store. (SV-009)

St. Vincent Craftsmen Cooperative
$55,869 Three years
The St. Vincent Craftsmen Cooperative established a loan fund for women artisans to purchase new materials and supplies. (SV-011)

*Supplemental Grants over $10,000*

Farmers and National Workers Collective Enterprises, Ltd.
$11,626
The Enterprise, which produces fruit and vegetables, is using grant funds to rehabilitate 23 acres for planting cocoa and fruit trees. (SV-007)

## SURINAME

*New Grants*

Algemene Vereniging van Kredietcooperties (Surinam Credit Union League)
$125,000 18 months
This federation of 39 credit unions will establish a consumer cooperative that will sell food staples and household items. The AVKC plans to use the revenues for leadership training programs and for agricultural production loans. (SU-003)

DOE-Theater
$12,000 One year
The DOE-Theater group is establishing a program to encourage popular theater in Suriname. The group is offering performances and workshops to stimulate interest in cultural and social development and helping smaller groups to perform. (SU-004)

Nationale Cooperatieve Vereniging Van Varkenskwekers G.A. (NACOVAR)
$148,000 One year
This cooperative association was organized in 1979 to improve markets for hog producers. NACOVAR is establishing a slaughterhouse and meat processing plant capable of processing 20 hogs per day. (SU-005)

# MEXICO, CENTRAL AMERICA, AND PANAMA

In fiscal year 1981, the Foundation approved grants for $5.1 million in Mexico, Central America, and Panama.

In Mexico, grant funds totaling $1.5 million supported a diverse array of projects. Programs in health, appropriate technology, and research received particular attention. A grant in the remote mountains of Chihuahua supports the training of Tarahumara Indian health workers. Another project is training health promoters for rural communities in the state of Puebla. Funds went to a center that is developing new agricultural technologies for the harsh environment of Mexico's northern desert. The center has developed solar water distillers and heaters, waste recycling and water storage systems, and methods of using wind power for energy.

A grant to an educational planning and research center is assisting studies on the training and performance of rural extension agents, community organizers, and teachers in three Mexican states. The Foundation supported a consumer organization to study patterns of food consumption throughout the country and identify the kinds of nutrition information needed by low-income groups. Another grant was made to an organization which has been working for the past seven years in Nahuatl Indian communities in the mountains of the state of Puebla. The group will evaluate its regional development program, which includes agricultural training, a coffee processing plant, and bilingual education and health programs.

Many grants in Central America made credit available to organizations assisting small businesses and peasants. In Guatemala, support went to a university training institute working with rural community development projects; to a cooperative federation to purchase fertilizer and expand agricultural services to approximately 18,000 small farmers in the highlands; and to an organization that provides agricultural credit and services to 1,400 families in the department of Jalapa. A grant in Honduras is enabling a federation of small business cooperatives to extend credit and marketing assistance to associated groups throughout the country. A national association of seven Indian communities in Costa Rica is establishing a credit fund for agricultural and community development programs.

Programs to strengthen cooperatives and cooperative federations continued to receive support. In Panama, the Foundation made a grant to a federation of 9,000 small farmers to improve the management of member cooperatives. Another grant in Panama was made to strengthen the administrative capabilities of a 1,600 member housing cooperative. Studies to explore the feasibility of worker-managed enterprises in rural areas were funded in Nicaragua and Honduras.

Women's projects in Central America gained increasing support from the Foundation. Grants were made to a national federation of Honduran peasant women providing health and nutrition services for 60 affiliated women's groups and to a Guatemalan organization offering nutrition and health education for rural women in the department of Izabal.

The violence in El Salvador continued to limit the ability of organizations to carry out development projects in rural areas. The Foundation's only funding provided supplemental support to a self-help housing organization in the capital city of San Salvador.

## COSTA RICA

*New Grants*

Asociación Integral de Desarrollo Comunal de Mata de Limón y Gandoca
$34,000 Two years
The Asociación is establishing fish ponds and drilling wells for potable water to improve the health and nutrition of its 63 member families in this remote coastal area. (CR-043)

Asociación de Desarrollo Integral de La Palmera de San Carlos
$47,040 One year
This local community development organization is completing the construction of a calcium carbonate plant. The plant will create employment, produce fertilizer for area farmers, and generate revenue for development activities. (CR-044)

Asociación Indigena de Costa Rica
$116,810 One year
This national organization of Indian groups is conducting programs for leadership training, project development, and cultural expression. (CR-046)

Cooperativa Multiple Santa Elena, R.L.
$6,650 One year
This cooperative, in an isolated mountain community, is exploring ways of diversifying the local economy, which now depends on dairy farming. (CR-047)

Centro Agricola Cantonal de Hojancha
$90,000 Two years
The center is expanding its services and introducing a hog raising program. It will work with low-income farmers to increase their production through crop diversification and will address environmental problems through a reforestation program. (CR-051)

## EL SALVADOR

*Supplemental Grants over $10,000*

Fundación Salvadoreña de Desarrollo y Vivienda Minima (FUNDASAL)
$412,746
This supplemental grant provided institutional support for FUNDASAL to cover salaries and administrative costs for its self-help housing program. (ES-021/022)

## GUATEMALA

*New Grants*

Federación de Cooperativas Agricolas de Productores de Café de Guatemala, R.L.
$82,981 Three years
FEDECOCAGUA is initiating a women's development program in its network of 37 cooperatives. Courses will be taught in home economics, child care, nutrition and health, and sewing skills. The program will also help organize small production enterprises. (GT-101)

Centro de Adiestramiento para Promotores Sociales (CAPS)
$245,000 Three years
CAPS, a training institute at the Rafael Landivar University in Guatemala City, has trained more than 10,000 community leaders. The grant is expanding CAP's loan fund to support economic development projects. (GT-110)

Instituto para el Desarrollo Social de América Central (IDESAC)
$67,914 Two years
IDESAC is establishing an enterprise to produce low-cost construction materials for a 400-family self-help housing program. (GT-114)

Federación de Cooperativas para Mercadeo y Servicios Varios, "El Quetzal," R.L. (FECOMERQ)
$507,500 Three years
The federation is purchasing fertilizer in bulk and distributing it to affiliated cooperatives and other small farmer groups in rural Indian communities. The project will serve approximately 18,000 low-income farmers in the highlands of Guatemala. (GT-117)

Movimiento Guatemalteco de Reconstrucción Rural (MGRR)
$139,000 Two years
The MGRR is establishing a loan fund and providing technical assistance to 1,400 farm families. (GT-118)

Instituto de Desarrollo Económico Social de América Central (IDESAC)
$1,758 Three months
Three IDESAC staff members visited housing projects in Panama and Mexico. (GT-119)

Fundación Guatemalteca para el Desarrollo "Carroll Behrhorst"
$287,940 Three years
The Fundación is using grant funds to support its training programs in preventive health care, agriculture, and nutrition for approximately 8,500 hospital patients and their families and for groups in 20 rural communities. (GT-122)

Centro de Estudios Mesoamericano sobre Tecnologia Apropiada (CEMAT)
$49,710 Two years
CEMAT is establishing a nutrition and health education center and a basic sanitation program in Quirigua. It is also disseminating information about simple technologies that it has developed, including an improved latrine and an energy efficient wood stove. (GR-125)

## HONDURAS

*New Grants*

Federación Hondureña de Mujeres Campesinas, Regional de Occidente (FEHMUC)
$54,663 Two years
FEHMUC is working with 60 women's groups in western Honduras teaching preventive health care, basic first aid, and nutrition. (HO-058)

Grupo Juvenil Dión de la Colonia El Pedregal de San José
$37,712 One year
The Grupo Juvenil Dión is completing construction of a community education and recreation center which will provide programs in vocational training, basic education, literacy, and health. (HO-059)

Instituto de Investigaciones Socioeconómicas (IISE)
$80,540 One year
IISE is exploring the feasibility of introducing worker self-managed enterprises to Honduras. (HO-064)

Federación Hondureña de Cooperativas Industriales, Ltda. (FEHCIL)
$253,915 Three years
FEHCIL is expanding its educational and credit programs for 10 affiliated production cooperatives in Honduras, and helping organize 15 new cooperatives. (HO-066)

*Supplemental Grants over $10,000*

Federación Hondureña de Cooperativas Cafetaleras (FEHCOCAL)
$103,866
The Federación is strengthening and expanding its technical assistance program for 26 affiliated coffee cooperatives in Honduras. (HO-044)

## MEXICO

*New Grants*

Asociación Mexicana de Estudios para la Defensa del Consumidor, A.C.
$114,132 Four years
The Asociación is conducting research on food consumption habits among low-income groups. (ME-154)

Sociedad Cooperativa Artesanal "Don Emiliano," S.C.L.
$51,000 One year
This furniture producing cooperative in Ciudad Netzahualcoyotl is increasing its working capital and expanding a program for apprentice carpenters. (ME-156)

Centro de Investigación y Docencia Económicas, A.C. (CIDE)
$21,896 One year
CIDE is conducting a series of seminars at four research centers in the region. (ME-160)

Centro de Estudios Educativos, A.C. (CEE)
$499,000 Three years
CEE is evaluating community development programs, testing new methodologies for applied research, and training rural extension agents in three Mexican states. (ME-161)

Instituto Mexicano de Médicos Descalzos y Naturistas, A.C. (IMMDEN)
$6,000 One year
IMMDEN is providing training to health workers in two rural communities in the state of Puebla. (ME-163)

Proyecto de Animación y Desarrollo, A.C. (PRADE II)
$151,000 Three years
PRADE is establishing a research center to evaluate its regional development program in Puebla Indian communities. (ME-164)

Center for Latin American Studies, University of Chicago
$4,900
Six historians from Mexico participated in the Sixth Congress of Mexican and United States historians. (ME-165)

Comunidad para el Desarrollo Rural, A.C. (CDR)
$36,500 Two years
CDR is assisting 15 young Mayan women to expand their sewing workshop and generate 35 new jobs by providing technical assistance to diversify production and secure new markets. Funds are being used to build a new workshop, purchase industrial machinery, and pay for skills training. (ME-166)

Proyecto Krutsio
$13,279 One year
IAF funds are supporting the expansion of an appropriate technology center in the Baja California desert and the dissemination of the technologies developed to small farmers and other interested groups in Mexico. The technologies include solar water distillers and heaters, water storage systems, and the use of wind power. (ME-168)

Alejandra Alvarez
$3,400
Alejandra Alvarez, of the Sna Jolobil artisan cooperative, visited similar artisan programs in different parts of Mexico in order to

improve the cooperative's marketing. (ME-172)

Estudios Sociales, A.C. (ESAC)
$110,000 Two years
ESAC is cooperating with the Tarahumara Mission to complete an assessment of health and educational needs and develop a community health program for the people of the Chihuahua sierra. They are training between 10 and 20 Tarahumara Indian and mestizo health workers, producing bilingual educational materials, initiating health education programs, and establishing four community health centers. (ME-173)

Marta Sánchez Soler
$3,539
Marta Sánchez Soler, the manager of Sociedad Cooperativa de Muebles Nacionales de Baja California, will visit worker self-management programs in Costa Rica, Peru, and Chile. (ME-175)

Departamento de Estudios Económicos y Sociales (DEES)
Universidad de Yucatán
$3,800
The Departamento held a workshop for staff of social research and community development organizations of the Yucatan. Participants presented their programs and worked toward more effective coordination. (ME-176)

*Supplemental Grants over $10,000*

Centro de Orientación de la Mujer Obrera, A.C. (COMO)
$18,514
The Centro provides training to women formerly employed in the border assembly plants of Ciudad Juárez. (ME-098)

Xochicalli, A.C./Consultea, S.C.
$60,250
Xochicalli is continuing its efforts to develop and disseminate simple, low-cost technologies for rural communities. (ME-139)

University of California at San Diego (UCSD) Program in United States-Mexican Studies
$262,500
Mexican scholars, graduate students, and development practitioners are participating in a program on U.S.-Mexican border issues at the University of California at San Diego. (ME-149)

Instituto Mexicano para el Desarrollo Comunitario (IMDEC)
$98,000
The Instituto is working to improve the services of nine consumer cooperatives in Guadalajara. Grant funds are being used to expand a central warehouse, distribute supplies, and conduct community education programs. (ME-150)

Fundacion Queretana para el Desarrollo Rural, A.C.
$20,000
The Fundación Queretana has established training and credit programs to assist landless laborers develop small production enterprises. (ME-155)

## NICARAGUA

*New Grants*

Instituto de Promoción Humana (INPRHU)
$102,085 Three years
INPRHU is establishing an agricultural training center for 360 small farmers, who will serve as community organizers and agricultural extension agents. (NC-074)

Conferencia de Religiosos de Nicaragua (CONFER)
$22,110 One year
CONFER is assisting the Cooperativa Banks-Lupia, an 85 member fishing enterprise in an isolated village on the Atlantic coast, to expand its fishing grounds and increase its catch. Funds are purchasing boat motors and other equipment. (NC-085)

Cooperativa de Ahorro y Crédito "Las Americas," R.L.
$19,360 One year
The Cooperativa, a credit union for artisans, shoemakers, carpenters, and other small businessmen, is using grant funds to complete construction of new offices and a community center for the Barrio Las Américas. (NC-091)

Asociación Nacional Pro-Clubes 4-S (ASONAC)
$15,000 Six months
ASONAC will explore the feasibility of establishing worker self-managed enterprises in rural Nicaragua. (NC-094)

*Supplemental Grants over $10,000*

Instituto Centroamericano de Administración de Empresas (INCAE)
$88,643
The Instituto will continue its training seminars for managers of rural enterprises. Seminar topics include resource allocation, project planning, administration of agro-industries, and rural project management. (NC-061)

## PANAMA

*New Grants*

Comité Pro Mejoras de Loma Colorada
$41,250 Two years
The Comite organizes community development activities in a poor neighborhood of David, Panama. The Comite is establishing a training center that will allow students to complete their secondary schooling while acquiring vocational skills. (PN-057)

Fundación Educativa de la Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (FECOLAC)
$137,500 Three years
FECOLAC has established a research and development unit to develop improved educational programs for credit unions in Latin America. (PN-061)

Federación de Cooperativas Agropecuarias de la Republica de Panama, R.L. (COAGRO)
$313,500 Three years
The Federation is expanding programs in membership education, management training, and financial administration for its 30 affiliated small farmer cooperatives. (PN-062)

Cooperativa de Vivienda Nuevo Chorrillo, R.L.
$2,372
Three managers of the cooperative attended the Central American Conference on Housing and Urban Development (COPVIDU) in Guatemala City. (PN-063)

Grupo de Tecnologia Apropiada (GTA)
$24,710 Six months
GTA is studying the processing and marketing of crude sugar and identifying the technical problems of small producers. The study will provide information for developing new technologies and for initiating programs of technical assistance and credit. (PN-064)

Instituto de Investigación y Educación para el Desarrollo (INEDESA)
$16,060 One year
INEDESA is training small farmers in 12 rural communities in Coclé and Chorrera in cooperative organization and agricultural extension. (PN-065)

Cooperativa de Vivienda Nuevo Chorrillo, R.L.
$126,040 Three years
The Nuevo Chorrillo housing cooperative is creating a community education program to provide cooperative management and skills training to its 1,600 members and their families. (PN-066)

# SOUTHERN CONE

In the Southern Cone countries of Argentina, Chile, Paraguay, and Uruguay, the Foundation approved projects totaling $5.7 million. As in past years, most grants assisted rural organizations, but an increased share of funding went to urban-based activities.

Grants for $1 million were made in Argentina. Small farmers are using Foundation funds to increase their income through improved marketing and the development of food processing capabilities. One grant, for example, helped establish a community-run plant for making fruit preserves. The Foundation is also working with Argentina's small Indian population. A project in the northeastern province of Misiones is assisting a migratory group of Guarani Indians to establish a permanent agricultural settlement. In Buenos Aires and Cordoba, the Foundation continued its support for self-help housing programs.

Some $2.3 million went to organizations in Chile, accounting for more than 40 percent of the region's funding. Grants are assisting peasant cooperatives by financing programs of agricultural training, technical assistance, credit, and cooperative education. The Foundation also supported projects that are assisting groups of subsistence farmers to produce for export, to increase their use of locally available inputs, and to take advantage of government programs for reforestation and livestock production. Grants to research centers are funding studies on the effects of new social and economic policies on the poor, on the problems of unemployed workers, and on the situation of community organizations. The Foundation increased its support for urban projects in Chile. One project in Santiago seeks to encourage community participation in health and nutrition programs.

The Foundation expanded its grant-making in Paraguay, where 37 projects for $1.5 million were approved. Grants were primarily directed to the problems of subsistence farmers, helping them meet needs for technical assistance, credit, education, and health services. In urban areas, support went for vocational training and a self-help housing program in the capital city of Asunción. Other projects supported an experimental education program for poor children, the development of small farmer technology, and applied research on issues of poverty and grassroots development.

Grants totaling $835,000 went to organizations in Uruguay. Most projects assisted low-income farmers to improve marketing procedures and develop small processing enterprises. One regional association of farmers received a grant to install a pasteurization plant that would supply milk for urban consumers; another association used funds to begin producing cheese for export. A grant went to a women's cooperative enterprise that manufactures knitted goods. The Foundation also helped to establish a national development foundation that will provide credit and technical assistance to small farms and businesses. A research grant is supporting study of a novel phonetic method for teaching children and adults to read and write.

## ARGENTINA

### *New Grants*

Instituto de Investigación y Capacitación Cooperativa de Trabajo, Ltda. (INCACOOP)
$45,000 One year
INCACOOP expanded its educational and technical assistance programs for small farmer cooperatives. The grant paid for the purchase of a vehicle, educational materials, and administrative costs. (AR-104)

Centro de Estudios de Estado y Sociedad (CEDES)
$164,100 Two years
CEDES is conducting research and training on problems of the urban poor in Buenos Aires. (AR-106)

Instituto Cuyano de Desarrollo Social (INCUDES)
$111,100 Two years
INCUDES is offering training and credit to approximately 400 small farmers and rural workers in five communities of San Juan and Mendoza. (AR-107)

Cooperativa Agricola y Ganadera Rio Chico
$14,000 One year
The Cooperativa established a consumer loan fund for its poorest members. (AR-108)

Roberto Martinez Nogueira
$36,500 Two years
Roberto Martinez Nogueira is assisting the Instituto de Desarrollo Social y Promoción Humana (INDES) to evaluate a small farmer credit and training program supported by the Foundation. (AR-109)

Gerardo Bacalini
$20,100 Two months
Gerardo Bacalini evaluated the educational program of the Asociación de Cooperativas de Trabajo de la Republica Argentina. (AR-110)

Centro de Estudios e Investigaciones Laborales (CEIL)
$34,800 Three months
CEIL evaluated the rural education program of the Asociación de Padres de Escuelas Familiares Agricolas (APEFA). (AR-111)

Cooperativa de Colonización Integral de Fachinal Limitada (COCOINFA)
$5,350 One month
COCOINFA analyzed how community resources can be applied to problems of health, education, employment, and agricultural production. (AR-112)

Fundación "Cardinal J. Dopfner"
$231,300 Three years
The Fundación "Cardinal J. Dopfner" is assisting 66 Guarani families establish community enterprises in agriculture, animal husbandry, and carpentry. (AR-113)

Asociación "Amigos de Luján"
$40,200 Two years
The Asociación "Amigos de Luján" is establishing a community-managed factory to produce fruit and vegetable preserves. The factory will provide employment for workers and a market for small farmers in the region. (AR-115)

### *Supplemental Grants over $10,000*

Instituto de Servicios Agropecuarios del Norte (ISAN)
$15,183
ISAN provides technical assistance and training to 10 rural organizations in three provinces. (AR-074)

Asociación de la Vivienda Económica (AVE)
$24,255
The Asociación provides assistance to four community groups involved in self-help housing programs. (AR-081)

Equipo Técnico de Vivienda (ETV)
$229,503
ETV is expanding its self-help housing programs for slum dwellers in

Buenos Aires. ETV is also providing assistance in self-help housing and other development programs for a community of unskilled laborers. (AR-094)

Cooperativa Agropecuaria y de Servicios Públicos "El Surco," Ltda.
$15,750
The Cooperativa expanded its production and marketing of sweet potatoes and continued to provide credit and training to its members. (AR-095)

Centro para el Desarrollo de Comunidades (CEDEC)
$25,294
CEDEC is providing technical assistance to wool producers in the Western Rio Negro province. (AR-096)

## CHILE

*New Grants*

Colectivo Acciones de Arte (CADA)
$4,500 — Three months
CADA organized a fund-raising program to support an exhibition of indigenous and popular art produced by low-income craftsmen. (CH-200)

Corporación de Investigaciones Económicas para Latinoamérica (CIEPLAN)
$214,000 — Two years
CIEPLAN is studying the effects of new government policies in housing, health, and social security. The research results will assist private development agencies that have organized social and economic programs for poor people. (CH-204)

Taller de Investigación Teatral
$6,500 — Six months
The Taller presented the Chilean play *Tres Marias y una Rosa* in Europe and the United States. The play depicts the lives of four Chilean women struggling to support their families. (CH-207)

Fundación Instituto Indigena
$98,891 — 18 months
The Fundación Instituto Indigena is conducting leadership training and rural development programs for Mapuche Indian farm families. The grant is also being used to provide courses in agriculture, health and nutrition, handicrafts, and leadership training to strengthen Mapuche cultural centers. (CH-208)

Fundación para el Desarrollo de Chiloe (FUNDECHI)
$96,848 — Two years
FUNDECHI will conduct an agricultural training program for 200 farmers and their families on the peninsula of Lacuy and will initiate a feasibility study for a reforestation project in the community of Aguas Buenas. (CH-214)

Victor Hugo Henriquez
$4,460
Mr. Henriquez, a skilled laborer and president of a self-managed firm, studied the self-management experience in Chile from the workers' perspective. (CH-219)

Centro de Indagación y Expresión Cultural y Artistica (CENECA)
$124,860 — Two years
CENECA is studying cultural expression in low-income neighborhoods and helping to develop cultural activities in church centers, mothers' clubs, and schools. (CH-220)

Fundación Chol-Chol
$50,000 — Three years
The Fundación is establishing a crop insurance fund for 300 small farmers. (CH-226)

Juan Guillermo Espinosa
$4,448 — One year
Mr. Espinosa studied worker self-managed enterprises in Peru. (CH-227)

Sociedad de Asistencia Técnica Financiera Campesina (SFC)
$82,460 — Two years
The SFC will establish a fund to finance feasibility studies for agricultural investment projects of small farmer organizations. (CH-228)

Corporación para Investigación Cientifica en Nutrición (CINUT)
$321,500 — 30 months
CINUT will explore and promote ways of increasing community participation in the design and management of health and nutrition activities in a low-income area of Santiago. (CH-235)

Manuel J. Barrera
$5,000 — Four months
Mr. Barrera is studying the effects of recent labor legislation on trade union activity. (CH-236)

*Supplemental Grants over $10,000*

Instituto de Educación Popular (IEP)
$73,400
The Instituto is providing training and organizational assistance to unemployed workers in Copiapo. (CH-080)

Cooperativa Campesina El Sol, Ltd.
$11,000
The Cooperativa is managing a credit fund and an agricultural extension program. (CH-100)

Centro de Estudios para el Desarrollo
$177,300
The Centro is providing technical assistance in administration and financial management to worker-managed enterprises and rural cooperatives. (CH-150)

Diakonia
$12,050
Diakonia conducted rural development programs among 1,800 small farm families. (CH-153)

Oficina Coordinadora de Asistencia Campesina
$58,220
The Oficina is training leaders of peasant organizations and private rural development agencies. (CH-154)

Instituto Chileno de Educación Cooperativa (ICECOOP)
$213,050
ICECOOP is producing radio programs and publishing a newsletter providing information to small farmers. (CH-155)

Academia de Humanismo Cristiano
$238,200
The Academia is continuing its programs of social and economic research. (CH-158)

Instituto de Promocion Agraria (INPROA)
$474,000
INPROA is offering technical assistance and training to small farmer cooperatives. INPROA will initiate an experimental program for 1,400 low-income families in farm management, livestock raising, accounting, and organizational development. (CH-159)

Confederación General de Cooperativas (CONFECOOP)
$36,000
The Confederación is providing training and technical assistance to member cooperatives. (CH-190)

## PARAGUAY

*New Grants*

Cooperativa Agricola Aperea, Ltda.
$79,650 — One year
The Cooperativa Agricola Aperea has built facilities to store produce for sale during periods of favorable prices and has installed scales to insure accurate weighing. (PY-038)

Coordinación Regional de Comités de Agricultores del Guairá y Caazapa
$259,500 — Two years
The Coordinación Regional, an organization of peasant farmers, is expanding its credit program and establishing a central supply of consumer goods for its members. (PY-039)

Comunidad Carbonera Caaguazu
$4,875 — One year
This small community organization has expanded its storage facilities and built two processing ovens to increase its production of charcoal. (PY-042)

Instituto para el Desarrollo Armónico de la Personalidad (IDAP)
$180,600 Two years
IDAP is organizing programs of teacher training, adult education, and technical assistance. (PY-043)

Comunidad Campesina Pira Reta
$3,100 18 months
The Comunidad Campesina is cultivating a five-acre plant nursery to improve the quality and increase the production of its orange trees. (PY-045)

Centro Paraguayo de Estudios Sociológicos (CPES)
$63,000 One year
CPES is editing and publishing a series of books and articles on development. (PY-046)

La Cooperativa de Ahorro y Crédito "La Rosena"
$40,900 Two years
The cooperative is organizing a vegetable production and marketing program for 50 low-income families. (PY-047)

Fundación Santa Cruz
$42,200 Two years
The Fundación Santa Cruz is offering training in industrial sewing, electrical installation, and masonry to 500 unemployed workers in Asunción, Puerto Stroessner, and Encarnación. (PY-048)

Coordinación Campesina San Pedro-Caaguazu
$8,000 Six months
The Coordinación Campesina provided credit for marketing cotton produced by its 100 members. (PY-049)

Sociedad de Análisis, Estudios y Proyectos (SAEP)
$13,710 Six months
The Sociedad has studied the Cooperativa San Agustin's management, production and marketing procedures, and its educational program. This evaluation is providing the cooperative with information to improve its operations. (PY-050)

Misión de Amistad
$373,300 Three years
The Misión de Amistad is organizing development commissions in 11 communities, training community leaders and health workers, and offering courses in preventive medicine. (PY-051)

Cooperativa de Ahorro y Crédito de Agricultores Unidos de Horqueta
$7,000 18 months
The Cooperativa Horqueta is establishing a loan fund for production and marketing activities. (PY-052)

Cooperativa de Ahorro y Crédito Mburicao, Ltda.
$4,700 Three months
The Cooperativa studied the feasibility of opening a cooperative supermarket in Asunción. (PY-053)

Comité de Iglesias
$195,575 One year
The Comité de Iglesias is purchasing materials and providing technical assistance for 50 families involved in a self-help, low-cost housing project. (PY-054)

Comité de Iglesias
$71,800 18 months
The Comité de Iglesias is studying problems of poverty in Paraguay. (PY-057)

Centro de Capacitación Agricola Katuete
$162,900 Three years
The Centro de Capacitación is providing training and technical assistance for subsistence farmers to increase and diversify their production. (PY-060)

*Supplemental Grants over $10,000*

Instituto para el Desarrollo Armónico de la Personalidad (IDAP)
$30,030
The Instituto is conducting programs of applied research, teacher training, and evaluation. (PY-030)

## URUGUAY

*New Grants*

Centro Interdisciplinario de Estudios sobre el Desarrollo de Uruguay (CIEDUR)
$105,370 Two years
This center for development studies is studying the effects of recent economic policies on small farmers in Uruguay. (UR-045)

Federación del Noreste de Canelones
$250,000 Three years
This federation of small farmer associations is seeking to expand the cultivation of alfalfa, which will slow erosion, return nutrients to the soil, and serve as a cash crop. (UR-046)

Manos del Uruguay
$2,860
A representative of Manos del Uruguay participated in the Women's World Banking Conference in Italy. (UR-049)

Centro de Investigaciones y Experimentación Pedagógica (CIEP)
$2,200
Two CIEP researchers traveled to Santiago, Chile to visit the adult education programs of the Centro de Investigación y Desarrollo de la Educación (CIDE). (UR-051)

Fundación Uruguaya de Cooperación y Desarrollo Solidarios (FUNDASOL)
$89,200 One year
FUNDASOL is a private development foundation that was recently established by six organizations representing low-income farmers, artisans, and urban workers. The grant provides funds for FUNDASOL to hire a director, organize leadership training seminars, and develop accounting and management procedures. (UR-052)

Centro de Informaciones y Estudios del Uruguay (CIESU)
$60,435 18 months
CIESU is developing a new method of literacy training and comparing it with other methods. (UR-055)

Comite de Fomento de Huertas y Granjas de Fraile Muerto
$42,470 Two years
The committee is expanding its agricultural training program for small farmers to increase their production and improve family nutrition (UR-057)

*Supplemental Grants over $10,000*

Cooperativa Agropecuaria de Lecheros de Quebracho (COLEQUE)
$205,440
COLEQUE has purchased and installed equipment for its new milk pasteurization plan. (UR-014)

Sociedad de Fomento Rural de Durazno (SFRD)
$60,000
The Sociedad is completing construction of its milk pasteurization and cheese processing plant. (UR-037)

Cooperativa Agropecuaria Ltda. de Agua para Riego (CALAGUA)
$25,000
The cooperative is completing a study of the feasibility of developing an industry for the export of frozen fruits and vegetables. (UR-040)

Asociación de Colonos del Uruguay (ACU)
$11,459
The Asociación is assisting small farmers to prepare rural development plans and expanding its information programs. (UR-042)

## LATIN AMERICA REGIONAL

*New Grants*

Andean Commission of Jurists
$75,000 Three years
The grant provided support for establishing an Andean Commission of Jurists, a private organization that will help protect the legal rights of the rural poor in the Andean region. (LA-056)

Federación Venezolana de Fundaciones Privadas
$5,000
The Federación coordinates the work of 28 private foundations providing social and educational services in Venezuela. This grant complemented contributions from other U.S. and Latin American foundations in support of a three-day conference of Latin American foundations in Caracas. (LA-061)

Inter-American Legal Services Administration (ILSA)
$10,000
ILSA organized a three-day conference in Costa Rica on the delivery of legal services in Latin America and the Caribbean. The grant covered travel expenses of 10 Latin American and Caribbean participants. (LA-062)

International Educational Development, Inc. (IED)
$5,000 Six months
The IED is publishing a Spanish edition of *Latin America Women: The*

*Meek Speak Out*. The book is a collection of 13 essays on the development experiences of low-income women. (LA-063)

Center for the Social Sciences, Columbia University
$170,674 One year
Robert Wasserstrom of Columbia University is preparing oral histories of six organizations which have been recipients of IAF support. The oral histories will provide poor and disadvantaged groups in Latin America and the Caribbean with the opportunity to speak on their own behalf and explain the experiences and approaches of their organizations. (LA-065)

Amazon Research and Training Program (ARTP)
$20,000
The grant paid the travel expenses of Latin American participants in a conference on Amazon development at the University of Florida. (LA-067)

Woodrow Wilson International Center for Scholars
$80,500 Two years
The grant is paying the travel expenses of Caribbean and Latin American participants in a series of workshops and seminars on the Caribbean. (LA-069)

Department of Cultural Affairs of the Organization of American States
$5,000
The Foundation provided funds to bring several Latin Americans and Caribbeans to a planning conference in Barbados on "Kindred Spirits: The Art and Science of Blacks in the Americas." (LA-070)

Comite Organizador, XIV Congreso Latinoamericano de Sociologia (ALAS)
$10,000
IAF funds covered the travel expenses of 15 Latin American participants in panel discussions related to grassroots development. The Congress was held in Puerto Rico. (LA-071)

*Seeds* Steering Committee, The Population Council
$7,585 One year
The *Seeds* Steering Committee is disseminating 3,000 copies of a Spanish edition of its pamphlet "Market Women's Cooperatives Giving Women Credit." (LA-072)

*Supplemental Grants over $10,000*

Department of Rural Sociology, University of Wisconsin
$13,600
The grant permitted the completion of a research project on social mobility among the Brazilian poor. (US-107)

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# OFFICE OF PLANNING AND RESEARCH

In June 1980, the IAF established an Office of Planning and Research to give greater emphasis to research and evaluation of the Foundation's work. The new office collaborates with regional staff in efforts to learn systematically from the IAF's experience, to encourage social and economic research on issues affecting the poor and disadvantaged in Latin America and the Caribbean, and to develop better ways of sharing its ideas and experiences with grantees and other development institutions.

During the past year, the Foundation initiated surveys of its work in rural credit, consumer cooperatives, community health, worker-managed enterprises, small business, and legal assistance. The IAF also sponsored more than 30 outside evaluations of grant-supported projects and conducted reviews of its fellowship and internship programs. Other learning activities included the preparation of a statistical report on the IAF's ten years of grant-making; the compilation and dissemination of some of the major lessons of the Foundation's grassroots development experience; and the commissioning of a series of oral histories of selected grantee organizations. The Foundation continued to publish its *Journal* twice yearly as a means of reporting the results of the IAF's work, explaining the Foundation approach to development, and exploring grassroots development issues generally.

# FELLOWSHIP PROGRAM

Foundation fellowships for field research in Latin America and the Caribbean were awarded last year to 19 masters students, 16 doctoral candidates, and one postdoctoral scholar. These fellowships are the Foundation's principal contribution to developing knowledge and understanding about Latin America in the U.S. Fellowship recipients were drawn from 21 U.S. universities located in 16 different states. Their research will be carried out in 17 countries of the region, with the largest numbers of fellows planning to study in Mexico, Peru, and Brazil. The 38 fellowship recipients were selected in a national competition from a total of more than 200 applicants.

Masters degree candidates receiving awards were:

Nancy Andes, Cornell University, "Mortality in Peru"

Martha Ardila, University of Texas, "Undocumented Colombian Migration to Venezuela: Study of Peripheral Migration and Its Impact on the Informal Sector"

John Butler, University of Florida, "Public and Private Colonization in Amazonia: A Comparative Study of Colonist Selection"

Laura Graham, University of Texas, "Political Oratory Among the Shavante of Brazil"

Philip Herr, Columbia University, "The Use of Appropriate Technology in a Rural Development Project in Yoro, Honduras"

Lynn Meisch, San Francisco State University, "The Effect of Tourism on Traditional Textiles in Tarabuco, Bolivia"

Barbara Morley, Iowa State University, "The Role of Traditional Birth Attendants in a Highland Mayan Community in Chiapas, Mexico"

Patricia O'Connor, Tulane University, "Traditional Medical Practices in Ecuador"

Richard Pace, University of Florida, "Urban Adaption and Socio-Economic Networks in Religion"

Craig Perkins, University of California at Los Angeles, "National Agrarian Policy and Local Response in Peru"

Daniel Sandweiss, Cornell University, "Man and Mangrove on the North Coast of Honduras"

Ben Schneider, University of California at Berkeley, "Worker Self-Managed Enterprises in Chile"

Ellen Schnepel, Columbia University, "Social Implications of Diglossa in the Town of Ste. Rose, Guadaloupe, French West Indies"

Laurence Szott, Duke University, "An Analysis of Plantation Forestry in Tropical America"

Karen Tice, Columbia University, "A Handicraft Cooperative: Cuna Women in the San Blas Islands of Panama Take Active Leadership"

Cynthia Truelove, Johns Hopkins University School of Advanced International Studies, "Participation of Women in Social, Economic and Political Organizations in the Cauca Valley"

Thomas Turino, University of Texas, "Change in the Indigenous Folk Music Tradition of Cuzco, Peru"

Nancy Westrate, Duke University, "Transhumant Nomads in the Southern Andes"

Sandra Witt, University of Florida, "The Pharmacy, Health Services and Frontier Expansion in the Ecuadorian Amazon"

Doctoral award winners and their projects were:

Jaime Biderman, University of California at Berkeley, "The Development of Capitalism in Nicaragua: Economic Growth, Class Relations and Uneven Development"

Maria de los Angeles Crummett, New School for Social Research, "Agrarian Structure, Subsistence Production and Migration in Aguascalientes, Mexico, 1960-1980"

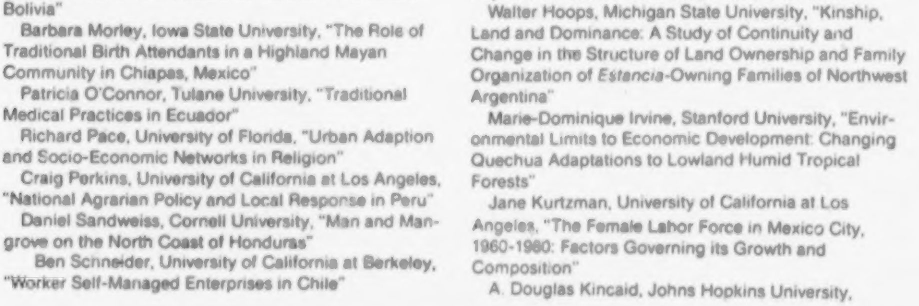
John French, Yale University, "Industrial Workers and Populist Politics in São Paulo, Brazil, 1945-1964"

Walter Hoops, Michigan State University, "Kinship, Land and Dominance: A Study of Continuity and Change in the Structure of Land Ownership and Family Organization of *Estancia*-Owning Families of Northwest Argentina"

Marie-Dominique Irvine, Stanford University, "Environmental Limits to Economic Development: Changing Quechua Adaptations to Lowland Humid Tropical Forests"

Jane Kurtzman, University of California at Los Angeles, "The Female Labor Force in Mexico City, 1960-1980: Factors Governing its Growth and Composition"

A. Douglas Kincaid, Johns Hopkins University,


Number of Fellowships

"Agrarian Development, Migration and Mobilization in Central America"

Maria Lagos, Columbia University, "Intermediation and Production: A Socio-Economic Study of *Transportistas* in Cochabamba, Bolivia"

Teresita Martinez, University of Texas, "Changing Patterns of Social and Economic Relations in the Late Nineteenth Century: The Puerto Rican Rural Population, 1873-1898"

Eva Paus, University of Pittsburgh, "The Impact of Export-Promoting Development on Employment and Welfare of the Labor Force: The Case of Colombia"

John Pulis, New School for Social Research, "Religious Movements and Social Change: The Rastafarian Brethren of Jamaica"

Thomas Reardon, University of California at Berkeley, "Terms of Trade Policy for Peruvian Agriculture: Multisectoral Growth and Income Effects"

Richard Reed, Harvard University, "Economic Integration and Small-Scale Societies: Agricultural Development and the Paraguayan Indians"

Rene Rios, University of Wisconsin, "The Role of Women in the Process of Peasant Differentiation: Mapuche Women and the Division of Indian Land in Southern Chile"

R. Livingston Robinson, University of Chicago, "Public Educational Investments in Jamaica: The Economic Costs and Returns of Academic and Technical Secondary Education"

Thomas Sheridan, University of Arizona, "The Cucurpe Community: Social Stratification in Economic Development and Peasant Control of Scarce Resources"

James Vreeland, University of Texas, "Rural Artisan Weavers: A Case Study in Appropriate Technology and Social Change in Arid Coastal Peru"

The postdoctoral award went to Faith Mitchell of the University of California at San Francisco for research on "The Role of the Pharmacy in Medical Care in Jamaica."

Members of the fellowship selection committee were:

William Glade, University of Texas
Kevin Healy, Inter-American Foundation
Larissa Lomnitz, National University of Mexico
Benjamin Orlove, University of California at Davis
Alejandro Portes, The Johns Hopkins University
LeRoy Richardson, Inter-American Foundation
Peter Smith, Massachusetts Institute of Technology
Carl Stone, University of the West Indies
William Thiesenhusen, University of Wisconsin

# FINANCIAL INFORMATION

## Funds Available to the Foundation

The Foundation receives money from the United States Congress and from the Social Progress Trust Fund of the Inter-American Development Bank. The Fund holds repayments from loans made several years ago by the United States Government to Latin American and Caribbean countries.

### Congressional Appropriations

| | |
|---|---|
| **FY 1979** | **$13.6 million** |
| **FY 1980** | **$13.6 million** |
| **FY 1981** | **$15.8 million** |
| **FY 1982** | **$12.0 million** |

Congressional appropriations can be used for grants or for administrative expenses. Congress appropriates money annually for a fiscal year that runs from October 1 to September 30.

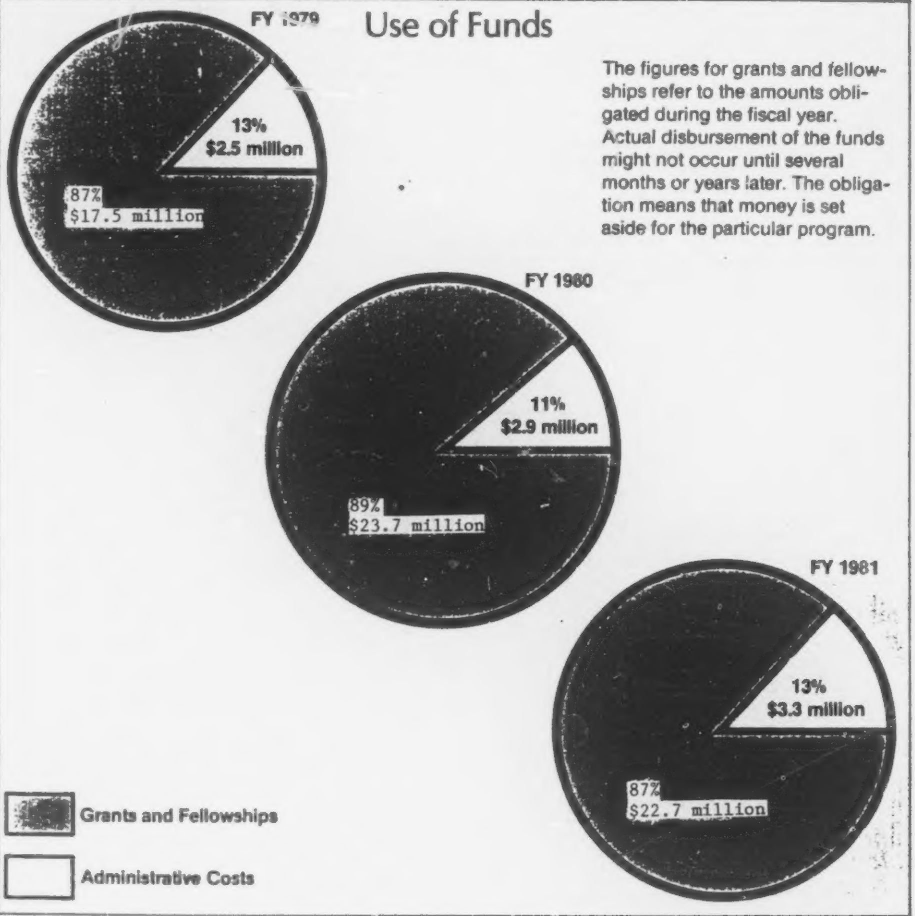
### Social Progress Trust Fund

| | |
|---|---|
| **1977-1979** | **$48 million** |
| **1980-1982** | **$48 million** |

Money from the Fund can be used only for grants. The money, which is available over a three-year period, is allocated by country and restricted for use in the following areas: land use, housing, sanitation, education, health, and financial institutions.

## Use of Funds

The figures for grants and fellowships refer to the amounts obligated during the fiscal year. Actual disbursement of the funds might not occur until several months or years later. The obligation means that money is set aside for the particular program.



## Distribution of Grants by Country in FY 1981

($ in thousands)

| | |
|---|---|
| ANDEAN REGION | |
| Bolivia | $ 1,354 |
| Colombia | 2,735 |
| Ecuador | 282 |
| Peru | 1,623 |
| Venezuela | 84 |
| CARIBBEAN AND BRAZIL | |
| Belize | 249 |
| Dominica | 199 |
| Dominican Republic | 1,669 |
| Haiti | 886 |
| Jamaica | 522 |
| Other Caribbean[1] | 1,144 |
| CENTRAL AMERICA, MEXICO, AND PANAMA | |
| Costa Rica | 295 |
| El Salvador | 413 |
| Guatemala | 1,389 |
| Honduras | 531 |
| Mexico | 1,497 |
| Nicaragua | 265 |
| Panama | 667 |
| SOUTHERN CONE | |
| Argentina | 1,015 |
| Chile | 2,327 |
| Paraguay | 1,544 |
| Uruguay | 835 |
| LATIN AMERICA REGIONAL | |
| **TOTAL** | $ 21,927 |

[1] Bahamas, Barbados, Grenada, Guyana, Netherlands Antilles, St. Kitts, St. Lucia, St. Vincent, Suriname, and Caribbean Regional

## Grant and Administrative Costs

1971-1981

($ in thousands)

| Fiscal Year | Grants | Administrative Costs | Total |
|---|---|---|---|
| 1971 | — | $ 376 (100%) | $ 376 |
| 1972 | $ 2,794 (71%) | 1,125 (29%) | 3,919 |
| 1973 | 2,998 (67%) | 1,482 (33%) | 4,480 |
| 1974 | 12,704 (89%) | 1,604 (11%) | 14,308 |
| 1975 | 13,650 (88%) | 1,889 (12%) | 15,539 |
| 1976* | 12,593 (83%) | 2,552 (17%) | 15,145 |
| 1977 | 15,275 (88%) | 2,181 (12%) | 17,456 |
| 1978 | 12,348 (85%) | 2,219 (15%) | 14,567 |
| 1979 | 17,480 (88%) | 2,488 (12%) | 19,968 |
| 1980 | 23,675 (89%) | 2,944 (11%) | 26,619 |
| 1981 | 22,703 (87%) | 3,334 (13%) | 26,037 |
| Total | $136,219** | $22,194 (14%) | $158,413 |

*Includes three months of transition period 1976 (1976T) when the beginning of the fiscal year was changed from July 1 to October 1. FY 1976 therefore equals a 15-month period.

**Includes approximately $3 million dollars for fellowships and small travel awards.

## Grants by Country

1971-1981

| Country | Amount (thousands) | No. of Grants |
|---|---|---|
| Chile | $ 22,186 | 87 |
| Peru | 12,552 | 68 |
| Colombia | 11,254 | 86 |
| Mexico | 10,597 | 104 |
| Brazil | 7,523 | 132 |
| Bolivia | 6,953 | 54 |
| Paraguay | 6,303 | 42 |
| Argentina | 5,404 | 49 |
| Dominican Republic | 5,092 | 32 |
| Nicaragua | 5,045 | 32 |
| Honduras | 4,962 | 25 |
| Uruguay | 4,600 | 39 |
| Panama | 4,525 | 41 |
| Guatemala | 3,949 | 41 |
| El Salvador | 3,616 | 15 |
| Ecuador | 3,399 | 32 |
| Haiti | 2,657 | 30 |
| Jamaica | 1,959 | 30 |
| Costa Rica | 1,776 | 24 |
| Dominica | 985 | 48 |
| Barbados | 719 | 6 |
| Belize | 497 | 19 |
| Trinidad and Tobago | 485 | 9 |
| Venezuela | 322 | 7 |
| Suriname | 285 | 3 |
| St. Vincent | 183 | 5 |
| Antigua | 164 | 2 |
| Guyana | 148 | 3 |
| Netherlands Antilles | 112 | 1 |
| Grenada | 85 | 8 |
| St. Lucia | 31 | 1 |
| St. Kitts-Nevis | 22 | 2 |
| Bahamas | 20 | 3 |
| Montserrat | 3 | 1 |
| Caribbean Regional | 2,951 | 35 |
| Latin America Regional | 2,208 | 67 |
| Total | $133,570 | 1,183 |

## Grants By Program Area

1971-1981

| Program Area | Total (thousands) |
|---|---|
| Agricultural and Rural Development | $ 55,640 |
| Education and Training | 21,610 |
| Urban Enterprises | 17,470 |
| Community Services | 16,590 |
| Research and Learning | 13,730 |
| Cultural Expression | 5,400 |
| Legal Assistance | 3,130 |
| Total | $133,570 |

# APPLYING FOR A GRANT

The Foundation selects projects for support from the large number of proposals it receives. It does not have fixed priorities or guidelines for the allocation of its funding among countries, institutions, or program sectors.

The Foundation has no standard application form for its grants, but it does require information about:

- the group that would manage the grant, including its history and current activities, its organization and staff, its sources of financing, and its relations with other institutions;
- the background of the project, including its origins and objectives, and the significance of the problems it would help solve;
- the activities that the project is designed to support, the time required for completing these activities, and the expected beneficiaries of the project; and
- the budget for the project, including the amount requested from the Foundation and funds that might be available from other sources.

Once the Foundation receives a completed proposal, it normally takes about three months to reach a decision on the suitability of the project for support. When the Foundation approves a project it enters into a formal agreement with the grantee confirming the activities to be carried out and the financial and administrative procedures to be followed. The Foundation requires financial and narrative reports on project activities every six months. It also requires (and pays for) periodic audits by a local audit firm.

Groups or individuals interested in submitting a proposal for Foundation funding can obtain an initial reaction to their project by sending a brief letter of inquiry outlining the project's purposes, the means proposed for achieving them, and the amount of resources required. Further information regarding the Foundation's programs of grants and fellowships and a list of recent publications can be obtained by writing to:

Inter-American Foundation
1515 Wilson Foundation
Rosslyn, Virginia 22209

### FIELDING OF PEACE CORPS VOLUNTEERS

Senator KASTEN. Thank you, Mr. Bell.

In her prepared statement which we will receive after your testimony, the Peace Corps Director suggests the possibility that private voluntary organizations might be used to field Peace Corps volunteers in countries where the Peace Corps does not have a full-fledged program.

Would your mandate allow or do you think it would be a good idea for your group to be used in any way to field Peace Corps volunteers?

Mr. BELL. Mr. Chairman, I do not believe that our group directly would be appropriate for fielding volunteers. There have been Peace Corps volunteers in the past who have served with organizations which have been grantees of the Foundation, but those are decisions which have been taken by each of these indigenous voluntary organizations. That would seem to us to be the best way to proceed.

We are most respectful of the decisionmaking of those organizations. In keeping with the way in which both the Peace Corps and we proceed, it is possible that further conversation between the Inter-American Foundation and the Peace Corps might be helpful in terms of identifying for the Peace Corps organizations that might take advantage of the service of Peace Corps volunteers.

Senator KASTEN. Your statement indicates that all of your staff operates out of Rosslyn, Va., and I would assume therefore that your field representatives must travel to and from their areas of support, which possibly might give them a limited exposure to Latin Americans' needs and limited time for followup work.

### ESTABLISHING PERMANENT PRESENCE OVERSEAS

First of all, is that true and have you considered establishing a permanent presence overseas? What would the relative advantages or disadvantages be if you went in that direction? I would assume that this is something that has come up.

Mr. BELL. It is a continuing question for us. Underlying your question is, of course, the correct assumption that we do have the legislative authority to post staff in Latin America or the Caribbean if we choose to do so.

I should say first that all members of our representational staff have extensive experience in Latin America or the Caribbean prior to coming to the Foundation. I myself lived and worked in Chile and in Brazil for nearly 8 years.

Other members of the staff have comparable experience so that they are usually going into countries of assignment with considerable experience.

There are tradeoffs. One reason we maintain our staff in Rosslyn rather than in the field is simply that it is considerably less expensive. Typically, when foreign assistance organizations have staff people abroad they get into a whole host of support expenses that drive up the costs considerably.

The other factor for us is that we believe that our grantees know best what they must do for themselves, and that they themselves must struggle with their problems. We believe that by perhaps visiting our grantees a little less often than they might like, we help to reinforce the importance of their making those decisions for themselves and our not intervening in them.

But this is a question in which the final answer is not necesarily in, and we do experiment from time to time. Typically the members of our staff travel for perhaps 2 to 3 weeks at a time, but there are times when staff spend as much as 6 weeks or more in the field on one visit.

### INFORMATION SHARING ON PROJECTS

Senator KASTEN. Do you have a method whereby you disseminate information or share information on the successes and ideas, also the failures of the projects and the work that you do so that lessons learned or the successes established are communicated within the overall group of people that you are working with?

Mr. BELL. Yes; we do have methods by which we do that. We have been working very hard especially over recent years in trying to improve those methods.

Senator KASTEN. Is that a formal mechanism or is it informal?

Mr. BELL. We have both formal and informal means. One regular mechanism is a journal published both in English and Spanish. It comes out every 6 months and draws on some of our experiences and the experiences of our grantees. Very often these are told by the grantees themselves. We are trying to pinpoint the audiences to which the journal is directed, and I think that it is becoming increasingly effective.

Senator KASTEN. That is a PR vehicle or is that more like a formal evaluation?

Mr. BELL. I think it has some public relations value, but we are working very hard to make it a more serious journal than it is already. We find throughout the hemisphere—in other development organizations and even university campuses—that it is used. The articles are used to convey what has worked and what has not worked in development. We think it can be made better, and we have concrete plans to do so.

Beyond that we have also commissioned, both with Foundation staff and in some cases people outside the Foundation working closely with us, a series of evaluations. At times these look at specific projects. In other cases, they look at our experience in a broad field like community health, rural cooperatives, or small businesses in the Caribbean, and evaluate that experience and draw lessons from it.

In each case we systematically circulate these evaluations to other development organizations and other people involved in development who would have an interest in them.

### AID ASSISTANCE IN EVALUATIONS

Senator KASTEN. Do you work with AID in those evaluations?

Mr. BELL. We certainly do make them available to AID at multiple levels. Just to go back to the journal, soon after our recent issue came out, we were requested by AID to supply them with an additional 24 copies. I think they were particularly interested in the article called "Lessons From Our Grassroots Experience," which pulled together some of the most important elements of that experience.

Senator **Kasten**. One of the things we were talking to AID, IG, and GAO about the other day was they didn't seem to feel that successes were being shared very well, or failures, and that you were reinventing the wheel or experiencing the same type of problems because people would be transferred.

Are you satisfied that you are working reasonably well with them?

Mr. **Bell**. I think we can and should do better. There is a sense in which you can never do well enough, and our relations with AID in particular vary. They tend to be established on a country-by-country basis, with our representative working in country X together with the AID mission director in that country.

We try to maintain those communications on a regular basis every time we go into the field. The Administrator of AID, Peter McPherson, does serve on our Board of Directors, so there is some cross fertilization through his participation on our Board.

At the same time, we are a very small organization in comparison with AID, and I am sure that there are people in parts of AID, particularly outside of Latin America, whom we should do a better job of reaching.

### SOCIAL PROGRESS TRUST FUND

Senator **Kasten**. Your statement indicates that your agreement to use the social progress trust fund of the Inter-American Development Bank ends next December?

Mr. **Bell**. Yes.

Senator **Kasten**. Who are the parties of the new negotiation and what changes would you like to see on your use of these funds in a new agreement, assuming the new ageement is to be reached?

Mr. **Bell**. We have had three agreements over a 9-year period, totaling $127 million, to give us access to the social progress trust fund, which are reflows on loans that were made under the Alliance for Progress and are held in trust by the Inter-American Development Bank.

We are now seeking a fourth agreement. While the moneys are held in trust by the Inter-American Development Bank, the Agency for International Development holds the key to IDB on behalf of the U.S. Government. Therefore, we need a three-party agreement comprised of the Inter-American Foundation, the Agency for International Development, and the Inter-American Development Bank, and we need to work together.

We have begun a formal process of negotiation toward reaching that agreement. We are seeking a continuation of our current agreement: Another 3-year agreement for access to $48 million, with, we hope, an improved country distribution of funds. Those funds are very important to us, almost as important to us as our appropriated funds.

Senator **Kasten**. But things are progressing, and you are satisfied with the progress that you are making?

Mr. **Bell**. The negotiations are just getting underway. I think the problem in negotiations of this sort is that this is something that is very important to us. Moreover, Congress, in 1973 or 1974, expressed the view that the Inter-American Foundation should have preferential access to those funds. Nevertheless, it is, understandably, sometimes a lower priority for the other agencies involved.

I am hopeful that we will progress rapidly toward an agreement before the end of this year.

Senator KASTEN. The reason I am asking is that we would be interested in working with you to try to be of help here, if that would be useful.

Mr. BELL. I greatly appreciate that. It well might be useful to us and I appreciate your saying so.

### HERITAGE FOUNDATION REPORT

Senator KASTEN. Some time ago the Heritage Foundation issued a report on your activities, and I would like to get your evaluation of that report. I understand they specifically criticized your funding of some groups which, in their opinion, were Communist or leftist.

Could you give me a summary of that report, of what, if anything, you have done in response to it, and specifically if you can address yourself to the kind of groups that they were objecting to.

Mr. BELL. Mr. Chairman, perhaps the most constructive way to respond to your question would be to offer to you for the record a copy of a response that we did prepare to the Heritage report. We can do that right now.

Senator KASTEN. We will include that in the record and maybe you could just briefly address yourself to the question of the leftist leaning groups.

Mr. BELL. First of all, it has been some months since that report was issued, but, as I recall, the report did single out a half dozen or so organizations and alleged that they were of a leftist nature. It should be pointed out that this is a half a dozen among more than 900 organizations that we have supported over the last 11 years.

The Inter-American Foundation has a very strict policy developed by our Board which forbids us from supporting partisan organizations of any stripe—right, left or center.

### HERITAGE FOUNDATION REPORT RESPONSE

In looking at the specific allegations that were made in the report about those few organizations, you will see in our response that in a very small number of those cases we do believe that the Foundation was in error. In those cases we sought to rectify those mistakes by terminating the grant agreements as soon as possible.

I think our record overall during these 10 years is very good. In some other cases, as you will see from our reponse, we believe that the allegations that were made were ill-founded. There is no basis for them.

Senator KASTEN. We will make the response a part of the record.

[The information follows:]

# A RESPONSE TO THE HERITAGE FOUNDATION REPORT ON THE INTER-AMERICAN FOUNDATION

The Heritage Foundation has released a report on the Inter-American Foundation (IAF) prepared by Cleto DiGiovanni. As the Heritage report recognizes, Congress created the IAF to foster innovative and experimental approaches to supporting self-help efforts of poor people in Latin America and the Caribbean. Unlike traditional development agencies, the IAF was instructed by Congress to "operate primarily through private rather than governmental channels on a . . . people-to-people level." The IAF has implemented that mandate by responding directly to the needs and initiatives of private grassroots organizations. Congress created the Foundation as an independent agency so that it would not be affected by short-term U.S. foreign policy considerations or drawn into partisan political activities.

In some respects, the Heritage report's assessment of the Foundation is favorable. It notes Congress' intent "to keep the IAF above partisan politics," and states that the IAF has "helped several worthwhile groups and projects with a variety of missions." Dr. DiGiovanni and the Heritage Foundation have observed that "the IAF has been able to provide assistance to the Latin American and Caribbean poor without getting enmeshed in U.S. or local politics." The report also commends the IAF's ability to reach the poor in an innovative and efficient manner:

> The IAF has charted new paths in participatory development projects; it has demonstrated that people take more interest in developing and maintaining a program in which they have had a role since its inception than in a program imposed on them. The IAF has shown that it can carry out its programs with low overhead costs. . . . The U.S. government is fortunate to have a mechanism like the IAF, with its quick response time and relatively simple and inexpensive overt vehicles for delivering development assistance, even if a few hundred dollars, directly to target groups overseas.

The report argues that "the IAF made sense--and it still does," and that "the IAF should not be eliminated or downgraded," a conclusion that contrasts markedly with Heritage's statements about most foreign assistance in its book Agenda for Progress.

The Heritage report also contains criticisms of the IAF and makes recommendations for redirecting its activities. By and large, however, the criticisms and recommendations are based on a mistaken view of the IAF and its Congressional mandate, or on a misunderstanding of what the IAF has actually done. The report, for example, admonishes the IAF "to acquire a new economic and political philosophy" or, more specifically, "to pursue programs designed to strengthen the private sector and a market economy." In addition, the report argues that "the IAF must return to its basic purpose: to devise innovative ways to help marginal people move into the mainstream of their societies." These recommendations do not in fact point to any new directions for the IAF. Indeed, in cooperation with members of business communities in Latin America and the Caribbean, the IAF is working to strengthen private sector initiatives and to assist poor people increase their productivity and become more active participants in the market economy.

Dr. DiGiovanni conflicts squarely with the intent of Congress when he questions the ability of poor people to design and manage their own development projects:

> It is fine to involve them in the development projects, but not to put them in charge.

This view is erroneous and patronizing to the many thousands of farmers, fishermen, factory workers, and small entrepreneurs who are developing and managing their projects and making them succeed. Congress has time and again endorsed this approach. In its report on the 1982 Foreign Assistance Appropriation Bill, the Senate Appropriations Committee commended the fact that the IAF "engages the poor and the disadvantaged in the process of development. Rather than being the objects of development schemes concocted by outsiders, the recipients of Foundation grants are themselves the initiators of projects." Local business leaders are involved in many IAF projects, and have often arrived at the same well-tested judgment that their role should be supportive rather than directive, responsive rather than prescriptive.

The IAF has made approximately 1,200 grants to more than 900 organizations in its ten-year history. The report, however, attempts to sustain its judgments by giving selective emphasis to a very small number of projects that are hardly representative of the full range of IAF activities. The final chapter of the report, "Discussion and Recommendations," is particularly critical of the Foundation, but many of the concerns expressed are not justified by the analysis and information presented in earlier chapters. The major allegations of the Heritage report are discussed below in an effort to set the record straight. The allegations suggest that the IAF (1) has a bias against business and the market economy; (2) supports leftist organizations; (3) pays insufficient attention to evaluation; (4) lacks adequate external oversight; and (5) conducts itself in ways that are incompatible with U.S. bipartisan foreign policy.

## 1. Alleged Bias Against Business

The report says the IAF is anti-business and antagonistic to free enterprise. It alleges that the IAF has an "anti-market economy philosophical orientation." The implication that the IAF favors a state-centered, collectivist approach to development is puzzling because, by virtue of its Congressional mandate, the Foundation works primarily and overwhelmingly with organizations and individuals in the private sector. If there is a single common element throughout the Foundation's program of grants, it is precisely that of supporting efforts of poor people to enter the market economy.

Approximately $100 million out of the total of $135 million in IAF grants have supported privately owned businesses and farms. Most of the remainder has assisted community-organized services, and research and learning on issues of poverty and grassroots development. This IAF funding in Latin America and the Caribbean has been more than matched by the contributions of others, including commitments from local business communities and from the low-income beneficiaries themselves.

In urban areas, IAF grants assist a variety of small businesses that, for example, manufacture furniture, produce clothing, or sell food. IAF-funded projects in rural areas also help small enterprises in such activities as food processing and artisan crafts. The bulk of the Foundation's assistance in rural areas is directed to small farmers who own their land. Many grants have been made to cooperative associations which enable these small producers to buy raw materials at lower cost, to expand the markets for their products, or to obtain access to commercial credit. Some projects, largely in Indian communities, are assisting peasant groups engaged in traditional forms of cooperative farming.

The cooperative enterprises supported by the IAF are not, as the report states, "collectivist" or "socialistic." Cooperatives are either private businesses themselves, or provide services to other small enterprises; they compete in the market and are subject to market forces. They are privately owned, their membership is voluntary, and they engage in economically productive activities. In some settings, cooperatives are the only opportunity available to the poor to invest productively what little they have, to become owners of property, and to participate in the market economy. Local business leaders are often important contributors to these cooperative efforts.

Members of business communities throughout Latin America and the Caribbean make private sector funds and management expertise available to IAF-supported organizations. In many countries, they have promoted the establishment of national development foundations (NDFs) to mobilize local resources for fostering self-help initiatives of poor people and drawing them into the market economy. The Mexican Rural Development Foundation, for example, was established twelve years ago by successful Mexican businessmen and now offers credit and technical assistance to 15,000 small farmers in 18 states of Mexico. Similar foundations in the Dominican Republic, El Salvador, and elsewhere are showing the special contribution the private sector can make to development efforts. They are reaching groups that government bureaucracies have neglected, and are providing support in flexible and imaginative ways to activities that would not be assisted by official agencies.

The report alleges that since the Foundation's initial support for NDFs in Mexico, the Dominican Republic, and El Salvador, "the IAF has chosen to take little advantage of the NDFs as channels through which it could provide assistance to poor people." In fact, over the past ten years, the Foundation has made more than forty grants, totalling $13 million, to some thirteen NDFs. The IAF has continued its support of the NDFs in Mexico, the Dominican Republic, and El Salvador. More recent grants have been made to NDFs in Nicaragua, Ecuador, Uruguay, Colombia, Bolivia, Argentina, Trinidad and Tobago, Guatemala, and Honduras. The largest portion of these grants has been for revolving loan funds for rural cooperatives, small enterprises, and self-help housing.

The report appears to equate the IAF's concern for the equitable distribution of income and resources with an anti-market approach. The IAF does not promote redistribution through government programs. Instead, IAF grants are assisting local private organizations that provide the poor with opportunities to own businesses or secure productive employment so they can increase their resources and income.

As the report points out, corporate executives from the U.S. business community are prominent among the members of the IAF's Board of Directors and Advisory Council. They include the senior vice president and general counsel of Levi Strauss, the former vice chairman of the board of Quaker Oats, and a former senior vice president of Sears. These individuals are strong advocates of free enterprise and private initiative.

## 2. Alleged Support for Leftist Organizations

The report alleges that the IAF supports some groups on the left that espouse Marxist-Leninist ideologies and are hostile to the United States. As evidence, it cites IAF assistance to twelve organizations, characterizing them as "advocating a leftist position," "communist," "appearing to involve leftists," "socialist or Marxist-Leninist oriented or controlled," and "associated with groups or individuals of the far left."

As a matter of established policy and practice, the Foundation does not support partisan political groups of any stripe. The IAF's procedures for reviewing grant proposals have been effective in screening such organizations from obtaining Foundation support. In those few instances in which a grant-supported organization is subsequently found to be engaged in partisan political activities, the IAF's normal procedure is to suspend disbursement of funds, investigate the situation, and, when warranted, terminate the grant.

The twelve groups cited in the report are a small fraction of the 900 organizations that have received IAF grants over the past decade. Moreover, only three of these twelve groups actually had a partisan political affiliation. IAF funding to each of them ended at least three years ago. In each of the three cases, the Foundation discussed the situation openly with both the grantee and the local government and moved to terminate the relationship. The other groups are all legitimate, nonpartisan organizations working openly and constructively in their countries. (Each of the twelve groups is discussed in Attachment A.)

## 3. Alleged Inadequacy of Learning from Experience

The report criticizes the IAF for not fulfilling its responsibility as an experimental institution, stating that the IAF has not evaluated its projects and communicated the lessons of its experience to other institutions.

In its early years, the Foundation was intent primarily on gaining experience in grassroots development in Latin America and the Caribbean. It was the Foundation's view that such experience, combined with a pragmatic sorting of what worked and what did not work, was a prerequisite to any more ambitious, systematic effort at learning and dissemination. As indicated by the various IAF publications cited in the report, however, the IAF has from the outset given attention to evaluation--to enrich the work of the organizations and individuals which it supports, to improve the quality of the IAF's own decisions, and to generate new ways of thinking and acting on development problems.

Over the years, as the Foundation has extended its grant-making, it has sought to strengthen its ability to learn from its experience and effectively disseminate the findings. In June 1980, the IAF created a new Office of Planning and Research that has given greater emphasis to research and analysis in the IAF's work and expanded the Foundation's capacity for evaluation. It is sharing the knowledge gained with grantees and other development institutions.

The Heritage report focuses attention on a preliminary version of one document produced by this new office, "The Inter-American Foundation: Lessons from Its Development Experience." The document is described as "tardy and brief," and its substance is given a mixed review; but the Heritage report does note that the Agency for International Development considers that "the conclusions are generally valid and significant and should be helpful to the development community."

Other program reviews and evaluations which have been conducted by the Foundation were not mentioned in the report. Over the past year, these have included more than 30 outside evaluations of IAF-supported projects; surveys of the IAF's grant-making in rural credit, community health, and worker-managed enterprises; evaluations of the IAF's fellowship and internship programs; and a paper reviewing the IAF's support for small businesses in the Caribbean. The IAF has recently commissioned a series of oral histories of Foundation-assisted grassroots organizations; initiated a study of consumer cooperatives in four Andean countries; and completed a statistical report on the IAF's ten years of grant-making.

## 4. Alleged Inadequacy of External Oversight

The report commends the IAF for its decentralized decision-making and "informal bureaucratic style in which significant responsibility is dispersed throughout its professional staff." But the report expresses concern that the IAF operates "with little effective outside supervision or oversight"--even as it observes that "effective oversight of an organization the size of IAF has to be internal, i.e., it has to be done by the Board of Directors." It asserts that the IAF's internal auditing procedures are weak, that the Board of Directors has delegated too much authority to the President and staff, and that Congress does not subject the IAF to close scrutiny.

Continual and careful oversight of the IAF is exercised by Congress, the Office of Management and Budget (OMB), and the General Accounting Office (GAO). Relative to its size and expenditures, the IAF receives more attention from these organizations than most other government agencies. Members of Congress and their staffs are knowledgeable about the IAF and its activities. Besides the normal give-and-take at Congressional hearings, they visit IAF projects in the field. This year, Members of Congress or their staff assistants have visited IAF grantees in Haiti, Paraguay, Argentina, and Ecuador. Staff of OMB are in frequent communication with IAF staff and are regular visitors to the Foundation's offices. The GAO conducts a financial audit each year that requires two or three auditors to spend five months at the IAF examining its records. In addition, the GAO is now conducting a program review of the IAF. As part of the study, which began last May and will be completed within the next several months, GAO auditors have visited IAF grantees in the Dominican Republic, Honduras, Costa Rica, Panama, and Peru. The IAF also publishes and widely distributes an annual report which provides information on each grant made in the previous year.

As the Heritage report acknowledges, the Foundation's internal rocedures are decentralized and provide for rapid and flexible esponses to proposals while maintaining high standards in aking grants. The Board of Directors has delegated grant pproval authority to the IAF President, who serves at the will f the Board. The President has redelegated that authority to our regional directors; but he retains ultimate responsibility or each grant decision and must sign all grant agreements. he President, in turn, reports all grant decisions to the oard of Directors and consults with the Board in advance on rants that might be controversial, that would establish new Foundation policy, or that are in excess of $500,000.

The Board, which is vested by law with governance over the IAF, eets four times a year at the Foundation's offices and once a ear in Latin America or the Caribbean, where it reviews in etail the activities in a specific country. An audit ommittee of the Board oversees the Foundation's financial operations. As the report itself states, the Board has always been composed of dedicated individuals who have taken their responsibilities seriously. They are assisted by an Advisory Council, which meets annually as an outside visiting committee. While the report dismisses the Council as a "safe-haven for former Board members," the Council has, in fact, helped to assure the continuous, long-term, nonpartisan approach of the Foundation. Both Board and Council members serve without compensation, but give generously of their energy, talent, and experience.

Congress stipulated that the IAF be separate from the State Department, the Agency for International Development, and other foreign policy or development assistance agencies. It also instructed that the Foundation be removed from short-term foreign policy considerations and from "the ebb and flow of political currents;" however, the IAF has never mistaken that independence for a license to avoid accountability.

## 5. Alleged Incompatibility with U.S. Bipartisan Foreign Policy

The report suggests that the IAF has "developed an operational philosophy, as seen in some but not all of its projects, which is not only incompatible with the philosophy of the Reagan Administration, but also has aspects which are inconsistent with traditional bipartisan foreign policy objectives of the United States." The report goes on to recommend that the IAF "acquire a new economic and political philosophy," and suggests that this change "would be welcomed by a broad spectrum of foreign policy and foreign development specialists--Republicans and Democrats, conservatives and moderates."

The Foundation's Board of Directors and Advisory Council have lways been composed of both Republicans and Democrats. Membership has included high government officials from the State Department, the Agency for International Development, and the Treasury Department as well as executives of leading orporations and banks. Three former Assistant Secretaries of State for Inter-American Affairs from the Eisenhower, Nixon, and Carter administrations currently serve on the Advisory ouncil.

The Foundation has consistently received bipartisan support rom Congress. The legislation establishing the Foundation was ponsored principally by Congressman Dante Fascell (D-Fla.) and former Congressman Bradford Morse (R-Mass.). Last year, Members of Congress Jack Kemp (R-N.Y.), Bob Michel (R-Ill.), Mark Andrews (R-N.D.), John Myers (R-Ind.), Virginia Smith (R-Neb.), and Bill Young (R-Fla.) submitted a minority report o the 1981 Foreign Assistance Appropriation Bill that was critical of foreign aid in general but praised the Inter-American Foundation as a model for other U.S. foreign aid programs. The minority report cited the Foundation as "an effective and worthwhile program which we are in support of." Coincident with the release of the Heritage report, the Senate Appropriations Committee commended the Foundation in its report accompanying the 1982 Foreign Assistance Appropriation Bill:

> The Committee strongly supports and encourages the Inter-American Foundation in its approach to development. Not only have we been impressed by the Foundation's policies and projects, we have also been impressed by the character and capability of its management and staff.

(The relevant section of the Senate report is presented as Attachment B.)

The Reagan Administration has set forth two principles to guide U.S. policy toward the developing world. First, developing countries should take primary responsibility for solving their own economic problems. Second, developing countries should place greater reliance on private sector initiatives to achieve their development goals. The work of the Inter-American Foundation is fully consistent with the President's principles. Moreover, as the IAF's continued support in Congress demonstrates, its program is in accord with the bipartisan ideas which led to the Foundation's creation and sustained it through its first decade.

### CARIBBEAN BASIN INITIATIVE

Senator KASTEN. Has the President or Assistant Secretary Enders indicated to you what role, if any, your organization might play in the Caribbean Basin Initiative?

Mr. BELL. We were consulted during the preparation of the Caribbean Basin Initiative and did make some recommendations. Not surprisingly, those recommendations were along the lines of our own activity.

We suggested that the Caribbean Basin Initiative give attention to the importance of the development of grassroots organizations, small enterprises, and small farming within the societies of the Caribbean. So there has been that opportunity for consultation.

Beyond that, we have made a continuing effort to keep our colleagues in the State Department and AID informed about what the Inter-American Foundation is involved in the Caribbean.

Last evening we had a meeting of our board of directors and advisory council which focused specifically on the foundation's program in the Dominican Republic. We invited to that meeting Ambassador Robert Ryan, who has worked on the Caribbean Basin Initiative for Assistant Secretary Enders. He was an active participant at the meeting, and we had a good exchange about the Caribbean Basin Initiative and its implications for the Dominican Republic.

But we are not in any formal sense a part of the legislative proposal that the administration has sent to Congress with regard to the Caribbean Basin Initiative.

Senator KASTEN. And I guess I should assume from your remarks that a number of your suggestions weren't followed necessarily as much as you would have wanted them to be followed. I don't want you to be critical of what they are doing, but do they have enough private sector voluntary involvement in the CBI?

Mr. BELL. Of course, the foundation does continue in its activities, and we have been working in the Caribbean for 10 years. The continuation of our activities is, I think, important and compatible with the Caribbean Basin Initiative.

### SUBMITTED QUESTIONS

Senator KASTEN. Peter, I think I have some other questions here, but I think what we will do is submit those questions to you; they are detailed questions about funding levels and other kinds of things.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### BUDGET

Senator Kasten: Your request for Fiscal Year 1983 is below what you received in Fiscal Year 1982.

Why?

Mr. Bell: Our appropriation for FY 1982 is $12 million. We are here to testify in support of $10.6 million for FY 1983 in accordance with the President's budget.

### COUNTRY ACTIVITY

Senator Kasten: To what extent, if any, will you be operating in the following countries?

El Salvador
Nicaragua
Jamaica
Haiti
Costa Rica
Honduras
Guatemala

Mr. Bell: During our eleven years of operation, the Foundation has made grants to private indigenous organizations in all of these countries. We continue to make grants to nongovernmental organizations in Jamaica, Nicaragua, Haiti, Costa Rica, and Honduras whenever we receive promising proposals. A list of grants we made in these countries last year is included in the annual report submitted with my testimony.

In Guatemala, we are still operating, but must restrict our activities to areas of the country where it is safe for IAF staff to travel. In El Salvador, we have not made any new grants since 1979 because we do not believe it has been safe for staff to travel in the country. Our only funding in El Salvador during the past year has been a supplemental grant to a recognized and successful self-help housing group we had assisted previously and which continues to operate effectively.

### TECHNICAL ASSISTANCE

Senator Kasten: As I understand it, you do not provide technical assistance to your grantees, but from time to time you arrange and finance such assistance from other sources.

How and to what extent are grant proposals reviewed to determine what technical assistance, if any, may be needed by the prospective grantees?

Mr. Bell: When we review proposals, we consider all aspects of the budget, including, if applicable, the provision of funds for technical assistance. As with any other type of expenditure, we consider whether it will help the grantees achieve the purposes of the projects in an efficient and effective manner. When we consider requests for technical assistance, we examine, among other things, the complexity of the projects, the current capabilities of the grantees, and the qualifications of those who would provide the assistance. We also examine how the technical assistance would help the groups achieve their objectives and how it would advance the groups' own abilities to be more self-reliant in the future.

Senator Kasten: Are the groups which submit their proposals generally aware at that time of any needs they may have for technical assistance?

Mr. Bell: Many groups are aware of their need for technical assistance and include it in their proposal. If the Foundation approves a project that does not include technical assistance, and it subsequently becomes evident that such assistance is necessary, we do sometimes make supplemental grants to organizations. We believe that a commitment to learning from experience, including the relevant experience of others, is a sign of the vitality of our grantees. Thus, IAF-supported groups seek to learn as they develop and, on occasion, do seek outside training and advice to assist in the process even after a project is under way. We try to remain flexible so that we can respond to the grantees' changing needs.

Senator Kasten: If such assistance is needed, how do you go about arranging for it, and who do you look for to do the work?

Mr. Bell: For the most part, we do not arrange for the technical assistance. The grantees themselves usually know of local groups that can provide the assistance, and they make the arrangements. In some cases, however, the grantees do ask us for our advice, and we introduce them to groups with which we are familiar, including those that have worked successfully with other IAF grantees.

When we suggest people to provide technical assistance, we usually try to identify local organizations that know the country, are sensitive to the needs of the grantee, and can help the grantee develop its own institutional capacities to solve the kinds of problems that call for outside technical assistance.

## MONITORING

Senator Kasten: I understand that as part of your project monitoring process you require regular programmatic and financial reports from your grant recipients, and also that certain grantees receive independent audits.

To what extent and how are these documents used as project monitoring tools in order to determine what problems grantees may have experienced or the possible noncompliance with grant terms?

Mr. Bell: The programmatic and financial reports, as well as the independent audits, help us in monitoring the progress of projects. They are one way in which we verify compliance with the terms of the grant agreements and learn if there are any problems. In addition to these reports and audits, we also monitor projects through periodic visits by IAF staff to the projects. Our policy is to require that active projects be visited by IAF staff at least once a year. We are in more frequent contact with grantees whose projects are relatively large or complex.

## REPORTING REQUIREMENTS

Senator Kasten: What has been your experience generally with grantee compliance with reporting requirements?

Mr. Bell: Most grantees comply with the reporting requirements conscientiously. We find, however, that in some cases, reports are incomplete or are submitted late. This often occurs when we begin grants with organizations that have little experience in keeping records or in receiving outside support. Before we disburse funds, we explain to grantees what kinds of reports are necessary, but it sometimes takes additional instruction and even technical assistance before organizations can actually produce the reports expected of them. Both the Foundation and most of our grantees regard the timely and conscientious preparation of these reports as important in fulfilling our formal requirements and in developing means of accountability within the organizations themselves.

Senator Kasten: How does IAF verify the accuracy and reliability of data reported?

Mr. Bell: We verify the accuracy of the reports through the visits to the projects by IAF staff and by the independent audits that are performed by in-country certified public accounting firms.

Senator Kasten: How do you respond if it is found that grantees are not in compliance with reporting requirements?

Mr. Bell: If reports are late or are not completed satisfactorily, we will inform the grantees of the terms of the grant agreement, which require timely reports. In the rare cases in which we cannot obtain meaningful reports, we will suspend disbursement of funds or terminate the grants.

## PROJECT EVALUATIONS

Senator Kasten: Have your formal project evaluations proven to be useful?

Mr. Bell: Yes, they are useful to the grantee or grantees being evaluated, to IAF staff members most familiar with the projects, and to other IAF staff analyzing proposals for similar projects. Evaluations are very important to the Foundation, and to our ability to learn, because they help tell us what works and does not work in grassroots development.

Senator Kasten: How are they used?

Mr. Bell: We are trying to make greater use of evaluations. In recent months, we have improved the quality of our studies. We are careful in selecting qualified evaluators, and in requiring that the reports be well written. In addition, the Foundation's Office of Planning and Research is improving the Foundation's ability to draw on evaluations of grants in one country when we review similar proposals in another country.

To further improve our efforts at evaluating our work, we are now undertaking a comprehensive review of some 200 evaluations contracted by the Foundation during the past 11 years. The study will help us understand how better to structure evaluations to benefit the Foundation, our grantees, and other development organizations.

In addition, now that the Foundation has had more than a decade of experience, we recognize the need to work more systematically in disseminating the results of our evaluations. Through our Journal as well as other means, we hope to communicate the lessons of our work more broadly.

## CONCLUDING REMARKS

Senator KASTEN. Let me just say that, number one, if we can work on this social progress trust fund and work that out, we will be happy to try to help. On behalf of the committee I would like to thank you for the work you are doing. We have had a good working relationship with you, and we appreciate what you are doing, and we want to try to work with you any way we can.

Thank you very much for your testimony here today.

Mr. BELL. Your support means a great deal to us.

# PEACE CORPS

## STATEMENT OF MS. LORET MILLER RUPPE, DIRECTOR, THE PEACE CORPS

ACCOMPANIED BY:

EVERETT ALVAREZ, JR., DEPUTY DIRECTOR OF THE PEACE CORPS

MRS. M. CHRIS SALE, DIRECTOR OF THE OFFICE OF FINANCIAL MANAGEMENT OF THE PEACE CORPS

### BUDGET REQUEST

Senator KASTEN. The next witness will be Ms. Loret Miller Ruppe, Director of the Peace Corps.

Ms. Ruppe.

Ms. RUPPE. Mr. Chairman and members of the committee, I am delighted to be here today to testify on behalf of the fiscal year 1983 Peace Corps appropriations request of $97.5 million, and to provide you with an update on our recent activities and plans for the coming fiscal year.

Accompanying me today are Everett Alvarez, Jr., Deputy Director of the Peace Corps, and Mrs. M. Chris Sale, Director of the Office of Financial Management of the Peace Corps, and it is my pleasure to introduce them to you.

### THE PAST YEAR

This past year has been a most significant one for the Peace Corps. We have maintained over 5,000 hardworking volunteers in approximately 63 countries; we have reorganized our management staff; and we have become an independent agency. I am pleased to report that the Peace Corps is alive and well, entering its 21st year with renewed vitality.

During the past 12 months, I have visited some of our programs in Africa and Latin America, witnessing firsthand the inspiring efforts of our volunteers and Peace Corps field personnel to help the people of the underdeveloped countries realize their own creative talents, and thus better their own lives.

I have talked with country presidents, foreign and U.S. ambassadors, prime ministers, and village leaders, and their responses are unanimously enthusiastic—reaffirming time and again that the Peace Corps is one of the most positive American presences abroad.

I remember particularly one village in Senegal—Maleme Thieurigne—where the people waited all day under the broiling sun to thank us personally for Michael Levitan of Wyncote, Pa, the one Peace Corps volunteer we had placed there.

It has truly proven to me that the Peace Corps is our most positive American presence overseas.

President Moi of Kenya, Prime Minister Seaga of Jamaica, and many other high-ranking officials in countries where we have programs, have expressed their enthusiastic appreciation for the work of our volunteers.

I am continually hearing from our returning volunteers that their terms of service in the Peace Corps enriched their lives immeasurably. At the same time, they brought back to the United States valuable expertise and understanding of the cultures of the developing world.

In Washington I have talked with corporate executives and people well-versed in the field of international economics and development, and they, along with officials of AID and the Department of State, reiterate that the Peace Corps is one of the most cost-effective means of conveying American good will and assistance to the developing world.

With all the positive support and enthusiasm engendered by the Peace Corps, particularly overseas—I wonder why so many Americans are unaware of our continued existence. "Is the Peace Corps still around?" I am often asked. I recognize that one of the continuing major tasks is to update the American people about the Peace Corps, our basis in voluntarism, and our goals for helping people of the Third World become productive and self-sufficient, objectives strongly embraced by the Reagan administration. We began this task in 1981, as we celebrated our 20th anniversary.

## PEACE CORPS SEPARATION

As you know, the Peace Corps is now a separate agency as a result of title 6 of the International Security and Development Cooperation Act of 1981, passed by this Congress and signed by President Reagan. Our staff worked long and hard hours to complete the many tasks required by separation. But the job was completed—on schedule—with a minimum of disruption. By now, the OMB report and GAO followup, as required by the separation legislation, have been forwarded to Congress

## PEACE CORPS GOALS

As the first Director of the Peace Corps established under the autonomy legislation, I am proud to reaffirm to you my commitment to the three goals of the Peace Corps:

One, to promote world peace and friendship;

Two, to help the peoples of such countries and areas in meeting their needs for trained manpower, particularly in meeting the basic needs of those living in the poorest areas of such countries; and

Three, to help promote a better understanding of the American people on the part of the peoples served and a better understanding of other peoples on the part of the American people.

## REORGANIZATION OF HEADQUARTERS OFFICES

During the past year, we have reorganized our headquarters offices, not only to manage the 283 new positions transferred to the Peace Corps, but to better carry out the directions which I see as critical for our operation in the coming years. Without describing that reorganization in detail, let me point out some key changes:

One, we have established a position of Associate Director for Recruitment and Placement. (Prior to separation, Peace Corps recruitment of new volunteers was handled by ACTION.) Recruitment and placement will receive their proper emphases as two of the most vital U.S. staff activities. As a result there are now three major divisions which direct operations: (a) recruitment and placement; (b) overseas operations; and (c) agency management.

Two, we have created a training coordination unit in my office, to oversee all volunteer and staff training efforts. This unit will give me improved ability to manage and coordinate efficient, quality training. It will also provide better information to make an evaluation of our training efforts.

Three, we have instituted a new private sector development office to encourage joint participation in some of our projects. It is our intention to seek to develop a positive partnership with American business, the educational community, the foundation world and the Peace Corps. Our efforts will be in keeping with President Reagan's policy directives that all Government agencies should seek to reach out to the private sector in Government programs.

Since my confirmation in May of 1981, one of my major concerns has been the establishment of the most efficient management procedures. We conducted a major review of the headquarters organization, restructuring Peace Corps Washington and reducing staffing here by 10 percent.

We also reviewed the Peace Corps training management process and instituted review procedures which assure greater competitiveness among contractors. We assessed country programs against a variety of factors and prepared an orderly contingency plan for various fiscal requirements.

In addition, we strengthened Peace Corps' capability to work in collaboration with other Federal and private development agencies to leverage U.S. dollars overseas for maximum effectiveness.

Last but not least, we now have in place a strong management team to provide leadership and direction in all the various phases of Peace Corps activities.

Since the passage of the Peace Corps Autonomy Act, further organizational changes and program considerations have been required. As I have outlined, the reorganization mandated by separation has been accomplished.

## FORWARD PLAN

We will now direct our attention to defining a new direction for Peace Corps, both overseas and here in the United States, by implementing several major initiatives through a major forward planning process. These initiatives will address training, overseas programing, private sector development, increased public awareness of the Peace Corps, strengthening volunteer recruitment, efforts to increase host country contributions to our overseas programs, and increased volunteer assistance in food and energy areas.

These endeavors will promote economic development and self-sustaining productive capacity, and development of free market mechanisms.

Our forward plan will continue to emphasize recruitment of older Americans with scarce skills, and minorities. We will be using demographic research to target recruitment efforts, applying a cost-benefit analysis to all recruitment activities.

With regard to host country contributions, Peace Corps will review and revise the host country contributions policy and reporting procedures with clearer definitions and guidelines.

In preparing our fiscal year 1983 budget, we have thought carefully about the kinds of activities our volunteers can do overseas. One aim of President Reagan's foreign policy initiative is to help others by establishing conditions under which creativity and self-help can flourish—principles long supported by the Peace Corps.

### FISCAL YEAR 1983 BUDGET

As President Reagan noted in his speech February 24, 1982, on the Caribbean Basin, the Peace Corps will give special emphasis to recruiting volunteers with skills in developing local enterprise. We certainly were pleased to be included in the President's address, and we felt it was the recognition that our volunteers truly deserved and earned for their efforts over the years.

We now have 861 volunteers in countries in the Caribbean Basin, and as part of our forward plan initiatives, new assignments will be created to support and promote local economic development and self-sustaining productive capacity, particularly in areas of food and energy. This will be done without abandoning commitments in other sectors of human development.

Our fiscal year 1983 request is for $97.5 million, compared to the $105 million appropriated for the current fiscal year. It is essential to the success of the President's economic program that all of us trim back wherever possible, even small agencies such as the Peace Corps. We are proposing a budget for 1983 which is $7.5 million below that of the current year.

Much of that reduction will be in the Washington headquarters operation, though we are requesting less money in all budget categories. One effect of a smaller budget in fiscal year 1983 will be a small reduction in the numbers of volunteers serving overseas. We have chosen to emphasize quality over quantity, concentrating on providing a solid basis that leaves us in a position to pursue as many options as possible.

We do not anticipate, for instance, that Peace Corps will have to depart from any countries in fiscal year 1983. We plan to reduce the number of new trainees going to the field by about 250 in fiscal year 1983, placing 2,600 trainees. This should lead to an overall field strength of approximately 4,641 volunteer-years of service. The Peace Corps will continue to operate in at least 62 countries during fiscal year 1983.

Despite the decline in overall volunteer numbers, Peace Corps will continue to provide the same complex range and breadth of training and volunteer support activities. The variety of languages taught and the technical and cross-cultural skills learned, for instance, will be only marginally less than in fiscal year 1982. In spite of the planned budget reduction, many programmatic improvments and innovations will take place.

### JOINT PROGRAMS WITH PRIVATE SECTOR

Additionally, as part of our forward plan initiatives, Peace Corps will continue to develop joint programs with the U.S. private sector—both profit and nonprofit and with appropriate Federal and international organizations. Through a successful program of cooperation with the Agency for International Development [AID] in energy and forestry, for example, Peace Corps has increased its placement of volunteers in these areas, strengthened support to those volunteers, and developed improved training and technical materials.

Peace Corps is developing, with the cooperation of AID Administrator Peter McPherson, a former Peace Corps volunteer, similar programs in water and sanitation, in fisheries, and in disaster preparedness. All of these efforts result in stronger support for our volunteers, and an increased capacity to assist basic needs of our host countries.

We are also exploring the feasibility of instituting pilot programs in several countries in which Peace Corps volunteers will be fielded directly through private volunteer organizations [PVO's]. It is expected that PVO's will provide assistance in programing, staff support, and in-country volunteer costs, while the Peace Corps will continue to provide the necessary resources for recruiting, selection and training, travel to and from the country, and the volunteer readjustment allowance.

We hope this will enable us to field those volunteers for less cost. The specifics of our fiscal year 1983 program and their dollar implications are included in more detail in our budget submission, and I am prepared to provide you with additional information as needed. The specifics of our program and the dollar applications are contained in our report.

### PEACE CORPS ADVISORY COUNCIL

I would like you to know that the Peace Corps Advisory Council appointed by President Reagan earlier this year, has just concluded 2 days of meetings here in Washington. They received an orientation regarding the Peace Corps, our goals, and our organization. I look forward to working with this dedicated group.

As a part of the separation legislation, section 5(c) of the Peace Corps Act was amended to lift the volunteer readjustment allowance cap of $125 a month. Since February, PCV's receive $175 each month as a readjustment allowance.

However, the legislation did not provide similar benefits for volunteer leaders whose services are required for supervisory or other special duties or responsibilities in connection with our programs. Volunteer leaders are appointed, in the field, by country directors under section 6 of the Peace Corps Act. Consequently, a technical amendment lifting the $125 a month readjustment allowance cap for our volunteer leaders has cleared OMB, and is being submitted.

We would appreciate your early consideration of this technical amendment.

Thank you very much and I welcome any questions.

Senator KASTEN. Thank you.

[The prepared statement of Loret Miller Ruppe follows:]

## PREPARED STATEMENT OF LORET MILLER RUPPE, DIRECTOR, PEACE CORPS

Mr. Chairman, members of the subcommittee, I am pleased to be here today to testify on behalf of the fiscal year 1983 Peace Corps appropriations request of $97.5 million, and to provide you with an update on our recent activities and plans for the coming fiscal year.

This past year has been a most significant one for the Peace Corps. We have maintained over 5,000 hardworking volunteers in approximately 63 countries; we have reorganized our management staff; and we have become an independent agency. I am pleased to report that the Peace Corps is alive and well, entering its twenty-first year with renewed vitality.

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2. To help the peoples of such countries and areas in meeting their needs for trained manpower, particularly in meeting the basic needs of those living in the poorest areas of such countries; and
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3. We have instituted a new private sector development office to encourage joint participation in some of our projects. It is our intention to seek to develop a positive partnership with American business, the educational community, the foundation world and the Peace Corps. Our efforts will be in keeping with President Reagan's policy directives that all Government agencies should seek to reach out to the private sector in Government programs.

Since my confirmation in May of 1981, one of my major concerns has been the establishment of the most efficient management procedures. We conducted a major review of the headquarters organization, restructuring Peace Corps Washington and reducing staffing here by 10 percent. We also reviewed the Peace Corps training management process and instituted review procedures which assure greater competitiveness among contractors. We assessed country programs against a variety of factors and prepared an orderly contingency plan for various fiscal requirements. In addition, we strengthened Peace Corps' capability to work in collaboration with other Federal and private development agencies to leverage U.S. dollars overseas for maximum effectiveness. Last but not least, we now have in place a strong management team to provide leadership and direction in all the various phases of Peace Corps activities.

Since the passage of the Peace Corps Autonomy Act, further organizational changes and program considerations have been required. As I have outlined, the reorganization mandated by separation has been accomplished. We will now direct our attention to defining a new direction for Peace Corps, both overseas and here in the United States, by implementing several major initiatives through a major forward planning process. These initiatives will address training, overseas programing, private sector development, increased public awareness of the Peace Corps, stengthening volunteer recruitment, efforts to increase host country contributions to our overseas programs, and increased volunteer assistance in food and energy areas. These endeavors will promote economic development and self sustaining productive capacity, and development of free market mechanisms.

Our forward plan will continue to emphasize recruitment of older Americans with scarce skills, and minorities. We will be using demographic research to target recruitment efforts, applying a cost-benefit analysis to all recruitment activities.

With regard to host country contributions, Peace Corps will review and revise the host country contributions policy and reporting procedures with clearer definitions and guidelines.

In preparing our fiscal year 1983 budget, we've thought carefully about the kinds of activities our volunteers can do overseas. One aim of President Reagan's foreign policy initiative is to help others by establishing conditions under which creativity and self-help can flourish—principles long supported by the Peace Corps. As President Reagan noted in his speech February 24, 1982 on the Caribbean Basin, the Peace Corps "will give special emphasis to recruit volunteers with skills in developing local enterprise." We now have 861 volunteers in countries in the Caribbean Basin, and as part of our forward plan initiatives, new assignments will be created to support and promote local economic development and self-sustaining productive capacity, particulary in areas of food and energy. This will be done without abandoning commitments in other sectors of human development.

Our fiscal year 1983 request is for $97.5 million, compared to the $105 million appropriated for the current fiscal year. It is essential to the success of the President's economic program that all of us trim back wherever possible, even small agencies such as the Peace Corps. We are proposing a budget for 1983 which is $7.5 million below that of the current year. Much of that reduction will be in the Washington headquarters operation, though we are requesting less money in all budget categories. One effect of a smaller budget in fiscal year 1983 will be a small reduction in the numbers of volunteers serving overseas. We have chosen to emphasize quality over quantity, concentrating on providing a solid basis that leaves us in a position to pursue as many options as possible. We do not anticipate, for instance, that Peace Corps will have to depart from any countries in fiscal year 1983.

We plan to reduce the number of new trainees going to the field by about 250 in fiscal year 1983, placing 2,600 trainees. This should lead to an overall field strength of approximately 4,641 volunteer-years of service. The Peace Corps will continue to operate in at least 62 countries during fiscal year 1983.

Despite the decline in overall volunteer numbers, Peace Corps will continue to provide the same complex range and breadth of training and volunteer support activities. The variety of languages taught and the technical and cross-cultural skills learned, for instance, will be only marginally less than in fiscal year 1982. In spite of the planned budget reduction, many programmatic improvements and innovations will take place.

Additionally, as part of our forward plan initiatives, Peace Corp will continue to develop joint programs with the U.S. private sector (both profit and nonprofit) and with appropriate Federal and internations organizations. Through a successful program of cooperation with the Agency for International Development (AID) in energy and forestry, for example, Peace Corps has increased its placement of volunteers in these areas, strengthened support to those volunteers, and developed improved training and technical materials. Peace Corps is developing, with the cooperation of AID Adminstrator Peter McPherson (a former Peace Corps volunteer), similar programs in water and sanitation, in fisheries, and in disaster preparedness. All of these efforts result in stronger support for our volunteers, and an increased capacity to assist basic needs of our host countries.

We are also exploring the feasibility of instituting pilot programs in several countries in which Peace Corps volunteers will be fielded directly through private volunteer organizations (or PVOS). It is expected that PVOS will provide assistance in programing, staff support, and in-country volunteer costs, while the Peace Corps will continue to provide the necessary resources for recruiting, selection and training, travel to and from the country, and the volunteer readjustment allowance. We hope this will enable us to field those volunteers for less cost.

The specifics of our fiscal year 1983 program and their dollar implications are included in more detail in our budget submission, and I am prepared to provide you with additonal information as needed.

The Peace Corps advisory council, appointed by President Reagan earlier this year, has just concluded 2 days of meetings here in Washington. They received an orientation regarding the Peace Corps, our goals, and our organization. I look forward to working with this dedicated group.

As a part of the separation legislation, Section 5(c) of the Peace Corps Act was amended to lift the volunteer readjustment allowance cap of $125 a month. Since February, PCVS receive $175 each-month as a readjustment allowance. However, the legislation did not provide similar benefits for volunteer leaders (whose services are required for supervisory or other special duties or responsibilities in connection with our programs). Volunteer leaders are appointed, in the field, by country directors under Section 6 of the Peace Corps Act. Consequently, a technical amendment lifting the $125 a month readjustment allowance cap for our volunteer leaders has cleared OMB, and is being submitted. We would appreciate your early consideration of this technical amendment.

### BUDGET REQUEST

Senator Kasten. What was your 1983 request to OMB, and what were you asking for in the initial negotiations?

Ms. Ruppe. In the very initial budget we submitted, you mean?

Senator Kasten. Yes.

Ms. Ruppe. $112 million.

Senator Kasten. And we are at $97,500,000?

Ms. Ruppe. Yes, but we had been placed at $80 million by OMB and we appealed and were brought up to $97,500,000.

Senator Kasten. Now, you mentioned the $175 allowance for the supervisory group, but the reduction from last year's budget won't affect your ability to provide the $175 readjustment allowance for volunteers?

Ms. Ruppe. No, it won't. We have that worked out.

### PEACE CORPS AUTONOMY

Senator Kasten. You mentioned very briefly, but I would like to get you to expand a little bit more on the Peace Corps separation from ACTION. The transition took place, and I think we all thought it went through smoothly and basically to everyone's satisfaction.

Is that your assessment as well?

Ms. Ruppe. Yes. Each agency appointed a task force and they worked very closely and met however many long hours, and I must commend them for all of their hard work. It had a great deal of input. OMB saw each side was well represented, and I know speaking for my agency, that we felt it went well and it has been done, and we are pleased that each agency can work on its own initiatives.

Senator Kasten. I understand there is some concern that some of the transferred positions you took under the separation were top heavy, making the Peace Corps generally top heavy. I guess we are talking about the chiefs versus the Indians that we are always talking about in a lot of agencies.

Is that your opinion and do we have more people in the higher grades at higher salary levels and more managers than we really need?

Ms. Ruppe. Well, it was really divided according to function. Each office was looked at and divided specifically according to how many people in that office had worked either for the Peace Corps, and Everett Alvarez was in on most of the negotiations. Maybe he would like to respond to that, but I would not say that we are top heavy. We took people who were primarily doing Peace Corps work and have what we think was a fair and equal arrangement.

Senator Kasten. Do you want to comment in addition, Mr. Alvarez?

Mr. Alvarez. Basically both agencies assigned task teams and we looked at the 15 functional areas that were involved in the joint support areas and identified all of the personnel that were performing Peace Corps work and those that were performing mostly ACTION work.

All of this was done during a process of negotiation between the task teams for each individual area. Every person that was identified and every function that was identified in the transfer was a result of a negotiation that was finally accepted by both sides.

Then of course OMB was involved in the negotiations throughout, and it was worked out satisfactorily for both sides.

### HEADQUARTERS REDUCTIONS

Senator Kasten. In your statement you said that in order to live within the reduced budget you are going to somewhat reduce the Washington headquarters operation.

How does that fit in view of the fact that there were some additional people that you took on as a result of the separation business?

Ms. Ruppe. Because of our 5-year rule we have a higher rate of attrition than most other agencies, so most of those positions will not be filled. In the reorganization that had gone on originally we had combined some offices which cut down some of our costs, and we are just going to work very hard.

We also got an FTE ceiling we felt we could work under, and we won't fill some of those. It is just the very support that goes into trainees, the additional costs of more training and more things will save us some money even in Washington headquarters.

Senator KASTEN. So you are confident this will all work its way through?

Ms. RUPPE. Yes, and we will watch our travel very closely.

### PRIVATE VOLUNTARY ORGANIZATIONS

Senator KASTEN. I am interested in your suggestion that private volunteer organizations might directly field Peace Corps volunteers or work more closely with you.

Have the PVO's themselves suggested such an interest and did they come forward and suggest this interest and made these suggestions to you, or is this something that you are hoping to explore with them?

Ms. RUPPE. Well, there is actually a longstanding policy of the Peace Corps to work with PVO's. The Peace Corps from the very beginning assigned volunteers to private voluntary organizations overseas in projects that they have initiated.

I was very happy that you brought it up with the Inter-American Foundation because we have talked with them about the possibility of putting volunteers in or encouraging that type of coordination. We are strongly trying to talk with groups and encourage even more joint programing requests. This will give us the ability to have more volunteers because it does take up some of our costs.

We are also talking about the possibility of fielding volunteers in countries where we do not have a staff or overviewing under the complete aegis of AID or private organizations. But at the present moment we have ongoing projects with 60 organizations where Peace Corps volunteers are working with PVO's. We have found six private voluntary organizations which are interested in utilizing Peace Corps volunteers in their programs in countries where Peace Corps, as I said, has no operational program. We feel that was very helpful.

Senator KASTEN. So the request and the suggestions are coming from them as well as from you?

Ms. RUPPE. We are trying to initiate them, and we are strongly encouraging that our regional directors meet with any private voluntary organization that is working in the countries.

Senator KASTEN. I wonder if you could provide for us exactly how many Peace Corps volunteers are actually being fielded through these different organizations. I think it is very positive, and we want to do everything we can to be of help.

Ms. RUPPE. Thank you.

[The information follows:]

### PEACE CORPS VOLUNTEERS IN PVOs

Peace Corps currently has no volunteers fielded through PVOs in countries where we have no official Peace Corps presence. Negotiations to establish such agreements continue, as we attempt to ensure the viability of each fielding and the mutuality of Peace Corps and PVO philosophies. However, Peace Corps volunteers continue to cooperate and work with over 60 PVOs and foundations in virtually every country in which Peace Corps has a program. They are working with such organizations as: Food and Agricultural Organization (FAO), UNESCO, United Nations Capital Development Fund (UNCDF), Cooperative League of the United States of America (CLUSA), and Project Hope, to name a few.

## INSURANCE FOR FOREIGN SERVICE NATIONALS

Senator KASTEN. Senator Inouye had a particular question on an employee, and it has to do with the claim of Maria Bolinas. The essential facts of this claim as I know them are as follows:

That she was a foreign service national employee of the Peace Corps in the Philippines where she is employed as executive director, and she has been employed by the Peace Corps for roughly 13 years.

From January 10, 1981, to May 15, 1981, she was assigned on temporary duty to Washington, and during this period she was designated acting country desk officer. When she was here she became ill and required medical attention and was hospitalized and she incurred medical expenses totaling $2,127. She paid a partial payment of these expenses and, in fact, borrowed funds from a former Peace Corps volunteer to pay her hospital bill in full.

Mrs. Bolinas, who earns less than $4,000 per year, is a foreign service national employee, has evidently had to pay these expenses out of her own pocket because her health insurance only covers illness in the Philippines.

Are you familiar with her case?

Ms. RUPPE. Yes. I just signed a letter stating that we would be able to pick up her expenses, thank goodness, and we regret very much that she has been under such financial duress. I will make that letter available for the record.

[The letter follows:]

Peace Corps

Washington, D.C. 20525

RUPPE AUTHORIZATION

April 23, 1982

Per Peace Corps Act Section 10(h) (P.L. 95-331, 92 Stat. 414), the following approval was granted on 4/26/82:

TO: Loret Miller Ruppe, PC/Director
THRU: Luis del Rio, Actg Associate Director/Program Operations

CAW

FROM: Carol A. Wzorek, Actg Regional Director, NANEAP

SUBJECT: FSN Reimbursement for Medical Expenses While Out of Country of Origin

Attached is a medical claim for Helen Bolinas, FSN Executive Officer for Peace Corps/Philippines. On January 10, 1981, Helen came to Peace Corps/Washington to represent the country at a CAST session. Subsequent to that, Helen was asked by the Region to accept a TDY as Philippines Desk Officer while we were interviewing prospective candidates for the position.

During her stay in Washington, which provided additional staff training/experience for her in her role as executive officer as well as tremendous assistance to the Region, it become necessary for Helen to be hospitalized. At that point, it was discovered that Helen's health insurance policy in the Philippines did not cover any illnesses outside of that country. Helen filed with Workman's Compensation in order to be reimbursed for her expenses (see attached), but her claim was denied.

Upon further research, we found that Helen could be granted payment for her medical expenses under the Peace Corps Act (see attached). As Helen's salary in the Philippines is only slightly over $4,000 per annum, hospital bills totalling $2,127.20 are obviously an extreme hardship for her to bear. NANEAP is, therefore, asking that you approve payment of Helen's bills under the conditions of the Peace Corps Act. Both Helen and the Region will be very grateful for your help.

APPROVED: ______

DISAPPROVED: ______

DATE: 4/26/82

## AUTOMATIC COVERAGE OF HOST COUNTRY NATIONALS

Ms. RUPPE. We are going to investigate our policy as to how there will be an automatic coverage of host country nationals when they come to this country.

Senator KASTEN. The question I was going to ask was, is it customary for the Peace Corps to assign national service employees to Washington without seeing that they have adequate medical insurance, and from now on you are going to try to do that?

Ms. RUPPE. We fully intend to do that. The Peace Corps Act had provided authority to pay for such hospital costs, but in order to assure that a person doesn't have to go through what she went through, we will have that.

Senator KASTEN. You do have the authority to reimburse?

Ms. RUPPE. Yes. You asked about host country nationals coming to this country and on occasion we do like to have them come in and give them further training.

One of the problems has been the lack of training that has been given to our staff in general and to our host country nationals, particularly in administrative services. We are right now having a series of conferences overseas addressing some of that, upgrading their training in those fields.

We do bring them back occasionally to really get a handle on the Washington operations so they can better respond in the field.

## IVORY COAST PROGRAM

Senator KASTEN. In view of the increased budget support which the Congress provided last year, and I think together with the likelihood that close to this level will be continued through fiscal 1983, can we expect now that you will reintroduce the Peace Corps program in the Ivory Coast which, because of budgetary constraints, was terminated last year?

Ms. RUPPE. Well, you know before that decision was made, I visited with Ambassador Rouse and our country director and you know there was a strong feeling not to remove the program to start out with, but we felt under the criteria that we use in exiting a country, that the Ivory Coast was a prime candidate because of the high per capita income.

We found it difficult to fill most of the jobs that our volunteers had been filling, the skill requests were extremely high, and we were unable to fill large percentages of the training requests that we had.

Since that time we have phased out the program, there really has been no programing. I have not done any progressive programing because our budget wouldn't support it. If in the future there is an interest on the part of the government we certainly would explore the possibilities.

Senator KASTEN. But the preface to my question is "no"? It is our understanding that there are a number of countries with per capita income equal to or higher than the Ivory Coast that you are working with. That is correct, isn't it?

Ms. RUPPE. Yes. A lot of it was really on site programing difficulties, where they required such a high level of French ability, where they required such technical skills that we simply could not recruit the people to fill them. That was an additional difficulty at that particular time.

### GAO REPORT ON VOLUNTEER PREPARATION

Senator KASTEN. About a year ago the GAO came up with a report entitled "Preparation of Volunteers for Peace Corps Service," which pointed out some areas need management attention, and in which it examined at least three specific areas relating to the preparation of volunteers for Peace Corps service.

Generally speaking, it is my understanding that you agreed with those GAO recommendations. What I would like for you to do is give us a general comment on how you have progressed with those recommendations, how you have met each of those recommendations, and specifically if you could lay out some changes or procedures that have been changed or adapted.

Ms. RUPPE. Well, I had been in the office for a short time when I realized beyond the findings in the GAO report, that we didn't have much coordination of our training or much effective evaluation of it.

It was at that point that I determined I would create a new Office of Training Management Coordination, to try to coordinate training that was done independently in these regions, and to make sure that there was a manager looking at training, checking to see that the insights we developed at one region would be brought to another region, as well as exploring the concept of having regional training centers which we find are very cost-effective. We are starting a regional training center in Jamaica that we feel will be highly effective.

The whole question of staging and the way we select or deselect volunteers or orient them has definitely been examined, as suggested by the report.

We have established a new type of process called a center for reassessment and training ("CREST"), which is a new staging capability. Now that we have organized recruitment, placement and staging all together, we believe that will improve the situation.

The Corps curriculum has been disseminated to the field and is in an implementation stage. The training of trainers also is something that is being implemented to make sure that we have the quality consistency.

We also, as I mentioned before, are sponsoring administrative officer conferences to better upgrade the skills of our administrative people overseas. Those are all various ways we are meeting the GAO report.

### MALAYSIA PROGRAM

Senator KASTEN. Our subcommittee staff investigations have found widespread support for a continuation of the Peace Corps program in Malaysia. While that country has known relative economic success over the last several years, it is our understanding that there are still pockets of extreme poverty and need that remain.

In view of the successful relationship the Peace Corps has developed in that country, why not keep at least a small program there instead of phasing it out completely?

Ms. RUPPE. Well, we are seeking other ways of keeping trained mature volunteers in countries which are doing better. I had a very interesting conversation with an Ambassador who pointed out if Peace Corps continues to come out of these better developing countries, what might result is some stigma of the Peace Corps only being in the least developed countries.

I also see the needs where, as you say, so many areas have pockets of poverty, some large areas of poverty, so we are trying to seek out other ways we could stay in these countries. I have talked with the Ambassador of Malaysia who is discussing with the government there and other organizations if there is any possibility of us keeping some volunteers there who would be overviewed or managed by other groups that would result in the reduction of our costs.

Otherwise we really would have to move ahead with the complete phaseout. But we are thinking of returning to countries that we have left and that would be something to consider for the Ivory Coast.

We have gone back to Korea to discuss the possibility of sending Peace Corps volunteers once more under the aegis of the government or some private group in Korea. We are trying to do things like that with the budget that we have.

Senator KASTEN. Now, with the budget that you requested which was $112 million, would you have been able to keep all of the volunteers in place, and how much of an add-on over the request right now would be required to insure that there would be no reduction in the number of volunteers serving overseas?

Ms. RUPPE. I really shouldn't address anything over the budget mark that we have. We feel that the President does have certain priorities.

Senator KASTEN. If we were to try to maintain that level, I could ask the question in a different way, and say, how much of a cut would we have to make, or one way or the other in the report language, in Washington staff or other kinds of things in order to keep the level of volunteers overseas the same?

Do you know the amount of money that you are saving by cutting people overseas? That is by cutting people out of countries?

Ms. RUPPE. We have a very good idea of that. You mean in the Malaysia program?

Senator KASTEN. Assuming you left everybody in place, what would it cost? What is the difference between what you were going to be and where you are?

Mrs. SALE. It amounts to about $4 million.

## CARIBBEAN BASIN INITIATIVE

Senator KASTEN. There has been some talk of the Peace Corps becoming involved in the Caribbean Basin Initiative.

Could you give us any information on this: What, if anything, are you doing in this area, and what, if anything, do you intend to be doing in this area?

Ms. RUPPE. This is a very important program for the Peace Corps because of the large number of volunteers we actually have had throughout the Caribbean Basin, 861 American volunteers work there at present.

When there were more and more suggestions that the administration was working on a policy, we tried to get in on every step of the way. We were in the interagency task force, and we have done as much as we could to get readings on how we could be effective in the Caribbean policy.

We are very pleased that the President mentioned us in his speech introducing the CBI. We are concentrating in this area. We started a few training centers there, and we will emphasize working toward developing the small and medium skill enterprises which make the most sense in the Caribbean. We will work toward bringing the rural assistance populations into the mainstream of their countries' production through this type of enterprise development.

Right now we are in the forefront of this type of agricultural production area. While relatively new to much of the Caribbean, it is extremely promising at various skill levels. We are in fish farming, we are in locally produced low-quality feed for our ruminating animals, such as cows.

We are in multiseasonal things, biomass production, beekeeping and the use of resistant fungus crops. I only state them, and I know that you know about them, but I think a lot of the Ameican public has no idea of the variety of our efforts and the really professional way volunteers are doing this work in these developing countries.

The Peace Corps will also be expanding its training and assignment of volunteers, the lack of which really causes bottlenecks. Included among these are feasibility evaluations, businessman's development, and market identification and development. There is a real need for more of these skills.

We are considering starting a private enterprise sector along with our other sectors that we have in forestry and agriculture and water and sanitation. This is a very logical sector for us to try to implement the volunteers that we have or the applicants with business skills.

If we can find ways to put them in the countries where it will encourage and foster the type of development these countries need for the investment of American business which the President is calling for, that is another reason for our private sector development. We are saying there is a logical partnership, and a mutually beneficial partnership between American business and the Peace Corps.

## EVALUATION

Senator KASTEN. How is the evaluation function being performed within the Peace Corps? Is it being contracted out, to have management consultants come in and how is your overall performance evaluation function handling this?

Mr. ALVAREZ. We did have an evaluation function over a year ago, but due to the reorganization, this function was phased out.

Presently we are developing new evaluation programs within the regions and in the Office of Planning and Assessment. A model evaluation program has been tested in Paraguay in which the country staff and the volunteers have been looking at new ways of evaluating the work they are doing, and in doing this, involving the host country and agency officials by eliciting their assessments of the projects and the work being done by volunteers.

We think this is going to be very beneficial, and very positive for people who are involved in the actual evaluation. We are looking at new ways to bring this information back up into Washington through a management information system which will give the director a managerial tool for decisionmaking. We are testing this in one country, and we plan to test it in other countries in the Caribbean area.

Senator KASTEN. It is your hope that you will be doing the evaluation in-house?

Mr. ALVAREZ. Yes, and it is a developing process now with the models we are working on, the pilot models, but we plan to incorporate these models into the assessment and the computer system that we are developing now inhouse.

Ms. RUPPE. This is an interesting process because through it we should be able to measure the impact that our program had in a country. Before we said "Ten wells, and 4,000 cows inoculated and so many people treated." This we think should really give us the ability to show the direct impact that we have had in that country from year to year on the economy and in the rural areas and their ministry.

So it is a new thing, but we expect it to work extremely well.

## RECRUITING

Senator KASTEN. I wanted to inquire as to the experience that you are going through now in recruiting, how the recruiting efforts are going, are you able to recruit and attract the kind of volunteers that you want and that you need and the styles that you want and need? How is the overall recruiting going?

Ms. RUPPE. We have over 50,000 inquiries a year including phone calls, mail, and walk-ins in our recruiting offices. Out of those, 15,000 applications emerge which we consider serious applications. From those we take approximately 6,000 for nominations, and out of that group we would select or end up with 2,600 or 2,700 trainees.

This particular year because our appropriation came very late in the fiscal year, we have allowed for the flexibility to try to get 300 additional trainees.

When you asked for an update to our recruiting capability we have had a 92 percent spring fill, but summer will be highly critical.

Senator KASTEN. What is a spring fill?

Ms. RUPPE. Well, that would be the goal that was established in the spring season in terms of nominations into the program.

Mrs. SALE. Those are the people who came in as live candidates for placement. That is a record high for the last 4 or 5 years.

**Ms. Ruppe.** We are at 80 percent for our summer fill, but we are very concerned for our end of year goal. We are not recruiting the numbers needed with proper skills, agricultural degrees and/or experience, and engineering degrees. That is why we feel it is vital that we improve and increase our public awareness in this country.

Americans are willing to serve, but over 60 percent of them don't know that the Peace Corps is around and needs them. The developing world needs them more than it ever has. We are determined to do a better job, and we think our outreach to the private sector will help us.

We are trying to get a strong emphasis on minority recruiting. At the present time we have about 6-percent minority serving as volunteers, and our rate of nominations for 1981 is at 8.2 percent, so we are pleased that there seems to be some way of increasing in minority recruitment because we are determined to do that.

We have approximately 300 volunteers who are 50 years of age or older. We have no upper age limit. We are strongly interested in recruiting among retiring farmers and among retirees from the private sector. We would like to insure that Peace Corps service is presented as an option in preretirement counseling and to meet with some of the unions to encourage that idea. Their labor contracts have a provision for leaves of absence. We would like to strongly encourage the granting of leaves of absences for Peace Corps service.

We have been reaching out trying to reestablish several links that Peace Corps had back in the sixties in the business, educational, and cultural segments of our society but whose participation declined in the last decade.

## SUBMITTED QUESTIONS

**Senator Kasten.** We have some additional questions, and I think some of the Senators may have additional questions, and we will submit those questions to you in writing.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

# QUESTIONS SUBMITTED BY SENATOR KASTEN

## REORGANIZATION AND REGIONAL DOWNGRADE

Senator Kasten: One result of your reorganization of the Washington operation is the downgrading of the regional bureaus and the regional directors, with resulting concentration of authority at the top. It would seem to me that since the regional bureaus are closest to the field operations that this downgrading is not a step in the right direction.

I wonder if you might now reconsider this aspect of your reorganization so that field operations are not hurt by decision-making which is farthest from them?

Mrs. Ruppe: Prior to our reorganization which established the three Associate Directors, one of which specifically has responsibility for field operations, the three regional directors reported directly to the Deputy Director of the Peace Corps. The Deputy Director had the responsibility for overall field coordination and the allocation of resources among the regions as well as for overall Peace Corps management and volunteer delivery. Needless to say, this was a sizable job.

Our recent reorganization was structured not to centralize more power in the Director's office but to delegate the authority of the Deputy Director to carry out his responsibilities in program operations, administrative management and volunteer delivery to the three Associate Directors. This move has allowed the Director and Deputy Director to use more of their time to concentrate on program policy and external relations. The Associate Director for Operations now has responsibility for assessing overall program coordination, priorities and resource allocation among the regions. To effectively carry out this function a small administrative staff has been established at the Associate Director's level. Several members of this staff had worked for the regions but their functional move has not lessened to any extent the degree of authority of the regional directors. The Regional Directors' roles are essentially unchanged, however they report to the Associate Director for Operations instead of the Deputy Director as they had done previously.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

Senator Kasten: In your statement you indicate a successful program of cooperation with the Agency for International Development.

Subcommittee staff investigations have indicated in the past that such good cooperation is usually dependent on good relations at the field level, because most A.I.D. Bureaus are reluctant to become too involved with Peace Corps activities.

While you indicate good cooperation with Peter McPherson, himself a former Peace Corps Volunteer, what about problems with A.I.D. Bureaus and Bureau Heads?

Mrs. Ruppe: It is correct that good cooperation depends on good relations at the field level, since both Peace Corps' and A.I.D.'s project ideas come from the field, from people who see the needs first-hand. On the other hand, leadership from Washington is helpful in setting the tone for that cooperation, and nurturing it despite the inevitable problems associated with differing procedures, differing time frames and communications over long distances.

Each of my Regional Directors has an established relationship with his or her counterpart in A.I.D.. These relationships extend beyond the Directors down through the regional country desk staff. There are periodic formal contacts as well as numerous informal exchanges. There are no problems in dealing with A.I.D. bureau heads. Quite the contrary, we find that Peace Corps gets rapid and interested responses from the A.I.D. Geographic Bureaus.

## PEACE CORPS COUNTRY ENTRY

Senator Kasten: Does the Peace Corps have any difficulties going into certain countries? If so, which countries, and what are the problems?

Mrs. Ruppe: During the first few years of Peace Corps operations, entry into new countries was affected primarily by skepticism about the organization itself. General volunteer success in the early years erased most of this skepticism. Thus, over the last several years, new country entries have been related more to interest by the host government in having a Peace Corps program, ability of the host government to provide minimum support and protection for volunteers, and an interest by the host government in developing projects for volunteers that both meet Peace Corps' goals and use volunteers with recruitable skills.

For example: India shows little interest in having Peace Corps return to that country and Bangladesh, at the present time, is considered too unstable for a Peace Corps program. However, changing circumstances in Egypt make a potential program there now possible. Potential countries world-wide are reviewed regularly to determine whether or not any change in the situation would make an entry feasible, and plans are then made accordingly.

## PEACE CORPS PROGRAM IN BARBADOS

Senator Kasten: Would you tell us the make-up of the Peace Corps program in Barbados -- How many Volunteers do you have in that country?

Mrs. Ruppe: The Peace Corps office in Barbados is the headquarters for our program in the Eastern Caribbean. Currently, there are 161 Peace Corps Volunteers serving in various programs in the islands of Barbados, Anguilla, Antigua, Dominica, Carriacou, St. Kitts/Nevis, Montserrat, St. Lucia, and St. Vincent and the Grenadines.

The areas in which Peace Corps Volunteers provide assistance to the people of the Eastern Caribbean islands are the following: agricultural development, small business development, education, and health.

In agriculture, for example, because of the islands' excessive reliance on food imports, the cost of food items is very high. Volunteers assist Eastern Caribbean farmers in increasing food production by transferring skills in agronomy, horticulture, veterinary sciences, livestock care, home economy, food technology, and like areas.

In an effort to improve economic development in the Eastern Caribbean by transferring to individuals the skills necessary to participate more productively in the business economy, volunteers train cooperative specialists and small business owners in accounting marketing, sound business practices, and other such skills. Volunteers also work as vocational instructors and handicraft specialists. This program is directly related to President Reagan's Caribbean Basin Initiative.

The Peace Corps program in the Eastern Caribbean also addresses the problems of inadequate educational and health systems. Volunteers serve as secondary school teachers, special education teachers, educational administration specialists, vocational instructors, and health and nutrition educators.

In Barbados, in particular, approximately twenty Peace Corps Volunteers are working in all of the above areas. The remaining volunteers are distributed throughout the islands as follows: Anguilla (4), Antigua (23), Carriacou (1), Dominica (24), Montserrat (9), St. Kitts/Nevis (20), St. Lucia (25), St.Vincent/Grenadines (35).

Approximately twenty percent of the volunteers serving in the Eastern Caribbean are older American Volunteers.

## PEACE CORPS PROGRAM IN HAITI

Senator Kasten: In Haiti?

Mrs. Ruppe: Peace Corps has been conducting negotiations with Haiti since 1968. Although at various times during the early 1970s both Governments expressed interest in the establishment of a Peace Corps program in Haiti, and several Haitian and international organizations made specific requests for volunteers, the negotiations were unsuccessful. It was reported that President Duvalier's reactions to each proposal were either negative or noncommittal.

In March 1976, a draft country agreement between the United States and Haiti, constituting the basis for the Haitian government's formal request for a Peace Corps program, was drawn up and presented to the Haitian government. It was not signed, and the Government's failure to act was again ascribed to President Duvalier's negative feeling about having Peace Corps Volunteers in the country. In October 1976, the Haitian Ambassador to the United States indicated that lack of progress in formalization of the Peace Corps agreement with the Government of Haiti might have been due to fear that the Peace Corps would produce the same problems that an apparently poorly-planned volunteer program had created in Haiti some years before.

During the period 1977-1981, the Peace Corps Country Director for the Dominican Republic made several trips to Haiti to hold informal discussions with Haitian officials. These were intended to keep the issue of a Peace Corps program alive, and to ascertain if there was any change of attitude towards Peace Corps. In mid-1980 USAID/Haiti proposed to the Haitian government that a small group of Peace Corps Volunteer Civil Engineers work in conjunction with an AID-sponsored rural construction project. Discussions were held with the U.S. and Haitian Ambassadors and Haitian government officials, but again, the government of Haiti declined to act.

The current round of negotiations with Haiti began in July, 1981, when the U.S. Ambassador to Haiti, Ernest Preeg, met with Loret Miller Ruppe, Director of Peace Corps. Ambassador Preeg expressed interest in establishing a small Peace Corps program in Haiti. In September, Peace Corps Inter-American Region officials met with Haitian Ambassador Georges Lege, who also expressed interest in Peace Corps. Ambassador Lege indicated that he would discuss the matter with other officials of the Haitian Government.

In November, a Haitian delegation composed of Secretary of State for Planninng, Pierre Sam, Secretary of State for Interior, Edouard Berrouet, and Ambassador Lege met with Peace Corps officials. The possibility of a Peace Corps program was well-received and, shortly thereafter, at the suggestion of the Haitians, Peace Corps sent a team to Haiti to explore program possibilities.

In early 1982, a second draft country agreement was prepared, and approved by the U.S. Department of State, and submitted to Ambassador Preeg. Peace Corps officials planned a visit to Haiti in April to negotiate the country agreement. Late in March, Ambassador Preeg advised Peace Corps to cancel the trip because of changes in the Haitian Cabinet and expressed concerns on the part of the Haitians regarding their participation in the Caribbean Basin Initiative. It was felt that it would be advisable to await more opportune timing for presentation of the draft agreement.

At the end of April, Ambassador Preeg informed Peace Corps that the draft agreement had been submitted to the Government of Haiti. Preliminary responses were favorable and Peace Corps is now waiting final action by President Duvalier.

If the draft country agreement were approved, Peace Corps and the Government of Haiti would begin joint planning for a small Peace Corps program of perhaps ten or twelve volunteers. Areas in which Haitian Ministries have seen a potential need for Peace Corps Volunteers include agricultural development, reforestation, health, and water supply. Volunteers would assist in Ministry programs, as well as projects of private voluntary organizations which have been approved by the Haitian Ministries.

## PEACE CORPS ADVISORY COUNCIL

Senator Kasten: For the record, please provide a membership list of the Advisory Council.

Mrs. Ruppe: The Peace Corps Advisory Council was formed pursuant to Executive Orders 12137 and 12258; in Section 9C of the Federal Advisory Committee Act. The objectives of the Council are to advise the President and the Director of the Peace Corps on initiatives needed to promote the purposes of the Peace Corps Act and to assist in the implementation of such activities. Members serve at the pleasure of the President.

The Council reports to the Director of the Peace Corps. In addition, the Council will submit an Annual Report to the President through the Director of the Peace Corps. This report will set forth its recommendations and its activities. The Council is required to meet at least two times each calendar year. However, it may meet more often as needed. The Council will terminate on December 31, 1982, unless extended. However, it is our expectation that the President will in fact extend the Council.

The membership list is as follows:

ROBERT R. BARRY, 66, is President of Calicopa Corporation and resides in Woodside, California.

CAROL E. BELTON, 54, is Vice President, Special Marketing, for Tenneco Oil in Houston, Texas.

MAURICE L. BURKE, 58, is Owner of M.L. Burke Company in Union City, California.

RICHARD W. CARLSON, 41, is Senior Vice President of San Diego Savings and Loan in San Diego, California.

W. DEWEY CLOWER, 46, is President of Food Processing Machinery and Suppliers Association in Washington, D.C.

HOLLY COORS, 61, is active in Citizens for a New Beginning in Englewood, Colorado.

RAYMOND E. CROSS, 60, is President of Federal Chicago Corporation in Lake Forest, Illinois.

DON DE FORE, 68, is an actor in Los Angeles, California.

DIANA D.S. DENMAN, 48, is a Ranch and Farm Owner in San Antonio, Texas.

GEORGE K. GRAEBER, 66, is a business consultant with George Graeber Associates in Washington, D.C.

ALEXANDER HEYMEYER, 71, is Counsel with Isham, Lincoln, and Beale in Chicago, Illinois.

JOSEPHINE HONG, 82, is Chairman of the Chinese-American Republican National Federation in New York.

VAN DYCK HUBBARD, 71, is a retired Captain with the United States Coast Guard. He resides in Los Angeles, California.

ALF EDGAR JACOBSON, 57, is Professor, Department of Social and Behavioral Sciences, at Colby-Sawyer College in New London, New Hampshire.

DAVID L. JONES, 59, is President, D.L. Jones and Associates in New York, New York.

TONG JOON ANTHONY KIM, 47, is Chairman of the New York State Korean-American Republican Federation in Brooklyn, New York.

ROBERT P. LEMARR, 52, is with LeMarr Limited in Phoenix, Arizona.

MARIA MALOOLY, 43, is a Regional Political Director for the Republican National Committee. She resides in Shorewood, Minnesota.

PETER F. MCCLOSKEY, 47, is President of Electronic Industries Association in Washington, D.C.

MINDY MEIKELJOHN, 52, is Vice Chairman of the Republican Party of Colorado. She resides in Arvada, Colorado.

WILLIAM J. MOSHOFSKY, 58, was employed with Georgia-Pacific Corporation and resides in Portland, Oregon.

JOSEPH A. PLONSKI, 63, is owner of Plonski Agency in Jersey City, New Jersey.

MARGARET P. SCOTT, 63, has been active in Republican Party politics on national, state, and local levels for over 20 years. She is from Los Angeles, California.

EDWIN J. SIMCOX, 37, is Secretary of State, State of Indiana. He resides in Indianapolis, Indiana.

PAUL A. THIRY, 77, is President of Thiry Architects, Inc. in Seattle, Washington.

THOMAS N. TRIPP, 39, is an attorney in Gahanna, Ohio.

Additional as of March 29, 1982:

WILLIAM SADLIER - Salt Lake City, Utah

HARRY SOKOLOV - Beverly Hills, California

ESTELLE SOTIRHOS - New York City, New York

KITTY KIDD ROBINSON - Chicago, Illinois

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### PEACE CORPS BUDGET

Senator Inouye: In your prepared statement, you cite expressions of enthusiastic appreciation of the work of the Peace Corps from "President Moi of Kenya, Prime Minister Seaga of Jamaica, and many other high-ranking officials in countries where we have programs."

You also state that you have talked with "corporate executives and people well-versed in the field of international economics and development, and they, along with officials of A.I.D. and the Department of State, reiterate that the Peace Corps is one of the most cost-effective means of conveying America'a good will and assistance to the developing world."

In view of this overwhelming support of the Peace Corps, by officials in both the U.S. and foreign governments, how do you explain the proposed reduction in Peace Corps funding?

Mrs. Ruppe: We are, of course, gratified by the support we receive both at home and abroad. However, in view of the current economic situation, the need to reduce overall government spending and the critical needs of many other government programs, the President has made the decision to fund Peace Corps at $97.5 million in 1983. We support the President's decision.

Senator Inouye: You justify the proposed reduction of Peace Corps funding by stating, "It is essential to the success of the President's economic program that all of us trim back wherever possible, even small agencies such as the Peace Corps."

In view of the President's proposed $1 billion increase in International Security Assistance programs, do you really believe a $7.5 million reduction in Peace Corps funding is "Essential to the success of the President's economic program"?

Mrs. Ruppe: I don't believe I am qualified to determine which parts of the President's budget are essential and which are not. The President has responsibility for the entire Federal budget, whereas I am responsible for only one small part. I must assume that the President would not propose this reduction if it were not essential.

Senator Inouye: If the Congress were to approve the proposed $7.5 million reduction in Peace Corps funding, what would be the specific amount of the reduction in Washington Headquarters operations?

Mrs. Ruppe: Our current plans call for a reduction of about $1.6 million in Headquarters operations. Another million dollars will be generated by not repeating this year's vehicle purchase.

Senator Inouye: What specific reductions would be required in each of the other major budget categories?

Mrs. Ruppe: Planned reductions in Trainees and Volunteers are expected to generate savings of $2.5 million in training, $900 thousand in Recruitment and Placement, and $1.5 million in other costs.

Senator Inouye: In your statement, you note that the President's budget request for the Peace Corps represents a $7.5 million reduction from Fiscal Year 1982. That, I assume, is the nominal reduction.

Mrs. Ruppe: That is correct.

Senator Inouye: If the Congress determined it to be in U.S. national interests to continue, in real terms, the level of support provided to Peace Corps activities in Fiscal Year 1982, how much would be required for appropriation in Fiscal Year 1983?

Does this amount provide for increases in overseas costs due to inflation in host countries? Does this amount provide for increases in costs resulting from U.S. inflation? Does this amount incorporate any assumed cost savings as a result of management actions you have taken or propose to take? If so, please identify those savings.

Mrs. Ruppe: Our internal estimates are that it would cost about $109 million to maintain our current program levels in 1983. This amount includes allowances for both domestic and overseas inflation. It also presumes savings of $700 thousand due to streamlining of those functions transferred from ACTION as a result of separation.

I am compelled to point out that this estimate does not in any way constitutue an appropriation request. The President has made a determination that the appropriate level for the Peace Corps for 1983 is $97.5 million. I fully support that determination as do other Peace Corps officials. We are working hard to ensure that we have the best possible Peace Corps that our budget will buy.

## NEW COUNTRY ENTRY

Senator Inouye: You note that the Peace Corps does not anticipate that it will have to depart from any country in FY 1983.

Under the budget proposed by the President, will the Peace Corps find it necessary to defer entry into any countries which have requested programs? If so, please identify those countries.

Mrs. Ruppe: Under current planning, Peace Corps will be able to enter those countries that have specifically requested programs. Peace Corps' ability to enter new countries at this point is related more to individual country relationships than to the budget.

## FIELDING PEACE CORPS VOLUNTEERS THROUGH PVOs

Senator Inouye: You have indicated that the Peace Corps is investigating the possibilities for fielding Peace Corps Volunteers directly through Private and Voluntary Organizations.

How will you ensure that the Peace Corps and its volunteers retain a distinct identity in this relationship? Is it not possible that the Peace Corps will come to be regarded as nothing more than a clearinghouse for volunteers to work in AID or PVO projects?

Mrs. Ruppe: We are not concerned that Peace Corps will lose its institutional identity through its relationship with Private and Voluntary Organizations. Since its creation by Congress, Peace Corps has not only served as a generic term for an institution, but its name has equally represented a new idea and spirit in American international cooperation. Peace Corps, as both an institution and as an idea, has stood for our country's commitment to help promote a better understanding of the American people and to help other countries meet their needs for trained manpower.

Through the historic Peace Corps Act of 1961, Congress established Peace Corps as both an institution and a process to help promote world peace, friendship and understanding by making available to interested countries men and women of the United States qualified for service abroad in development activities.

Since the first days of operations, volunteers have served in Private and Voluntary Organizations in almost every country that has hosted Peace Corps. Those countries that have requested American volunteers to serve with PVOs have always been completely aware that the individuals were representatives of the institution, Peace Corps, but more importantly, were representatives of the United States. Similarly, the volunteers assigned to PVOs were always trained by the Peace Corps. Consequently all Peace Corps Volunteers maintained a distinct identity as a result of the training experience.

The expansion of the PVO program in no way alters the basic Congressional purpose of the historic 1961 Peace Corps Act which is to make available to interested countries and areas men and women of the United States qualified for service abroad.

## FORWARD PLAN

Senator Inouye: Your statement discusses at length what is called a "Major Forward Planning Process." I am, however, uncertain what is meant by this term. Would you provide a synopsis of this process?

Mrs. Ruppe: The Peace Corps Forward Plan is a strategy document and process which was designed to identify and develop the priority initiatives of the Peace Corps for the next three years (FY 83-85). It was conceived as a mechanism to facilitate the incorporation of the Director's and the Administration's programmatic and management initiatives into the Peace Corps planning process while at the same time enlisting broad-based participation among senior staff in the development of such policy.

The Plan includes broad philosophical discussions of nine major initiatives of the Peace Corps and sets within that broad framework specific short term initiatives with specific milestones identified and project managers assigned. The Forward Plan will provide the framework for the preliminary budget, the legislative agenda, and as a result, the agency's programming system. It is envisioned that the Plan will be a flexible document and will at minimum be assessed and revised on an annual basis.

The process of developing the Peace Corps Forward Plan involved the assignment of the nine initiatives to one or more of the Associate Director's staffs. The Associate Directors for Management and for Recruitment and Placement took the lead on three of the nine while the Operations staff likewise addressed three and the remaining three were jointly addressed. The initiatives which were developed by the respective staffs included the following steps:

(1) Identification of the problem including a discussion of the background, the relevant priority of need, steps taken in the past and constraints;

(2) Development of alternatives including a discussion of costs and benefits, both tangible and intangible; and

(3) Recommendation of alternatives with specific short

term objectives including assignments of project managers and milestone completion dates.

Once developed, the initiatives were exchanged between the staffs and critiqued. Joint teams were established to make final revisions and to present the initiatives to the Director and senior staff for discussion. Following the discussions, the Director made specific policy decisions which were reflected in policy guidance which was sent out to the field as well as to headquarters offices for each to use in developing their FY83 plans.

Senator Inouye: How will the Forward Planning process promote the development of free-market mechanisms? As an example of how this process is to function, please demonstrate how it will help the Private Sector Development Office "encourage joint participation in some of our projects".

Mrs. Ruppe: The Forward Planning process will facilitate Peace Corps' promotion of free market mechanisms because one of the initiatives we developed specifically addressed this issue. As you can see from the initiative statement shown below, Peace Corps has brought the experience and creativity of its senior staff to see how it can best help (at the individual and community level) third world countries move toward free market economic approaches.

In further detailed response to your question, copies of Forward Plan Initiatives 4 and 5 follow:

## INITIATIVE 4

Initiative: Expand mutually beneficial and appropriate relationships, including joint programs, with other public and private sector organizations (including international organizations) in the United States and in developing countries.

Preface: The review team assigned to this initiative proposes that its wording be modified to reflect the fact a number of relationships between the Peace Corps and the private sector already exist and that the goal therefore is to expand, rather than develop such relationships. The team also proposes that the goal be focused on "mutually beneficial and appropriate relationships, including joint programs" rather than on "joint programs which build" such relationships.

This paper provides an outline of Peace Corps's current public and private sector relationships, most of which (as the paper points out) have been built at the country-level. The paper also outlines the major types of constraints and risks of initiatives in this area, noting that actual constraints will range considerably depending on the type of relationship and the number and type of organizations involved.

Finally, the paper presents seven alternative approaches to develop public and private sector relationships. The alternatives are not mutually exclusive, but the team in no way suggests that all be implemented at the same time.

The team does recommend, however, that special consideration be given to the idea of focusing development of relationships with private sector profit-making organizations in the United States at least initially.

While the team has proposed some specific objectives and milestones under each alternative, these are intended to serve as examples and/or starting points from which the Project Manager would develop a more specific plan for subsequent review by Senior Staff and approval by the Director.

Issue Identification: A major challenge in most endeavors is making the most effective use possible of limited resources. This is especially true for organizations like the Peace Corps whose principal resources are its positive image and reputation in the United States and overseas, the voluntary services of individual Americans, the financial support of the American taxpayer, and the cooperation and support of the people of countries whom the volunteers seek to serve.

One of the most effective ways to make the most of limited resources is to collaborate with others who share a common interest through mutually beneficial and appropriate relationships, including joint programs. Over the past twenty years, the Peace Corps has developed a wide variety of such relationships, primarily with private voluntary organizations (e.g. CARE, Oxfam, etc.) and public sector development assistance agencies (e.g. USAID, WHO, etc.). Most of these relationships have been built through the local programming activities of Peace Corps staff in individual host countries.

In recent years, Peace Corps has entered into several joint programs through agreements negotiated at the headquarters level. Several inter-agency agreements (Participating Agency Service Agreements or PASAs) have been made with the U.S. Agency for International Development. These PASAs generally have grown from U.S. AID's need for assistance in implementing its programs at the grass-roots level where volunteers work and Peace Corps' need to ensure that the projects in which volunteers work have the necessary technical and financial support. U.S. AID has thus provided support for the development of Peace Corps programming and trainng capacity in several areas of common interest.

Peace Corps has also begun to negotiate a few other agreements (principally with private voluntary organizations or PVOs) which open opportunities for volunteers to work in countries where Peace Corps does not have established programs. Collaborating agencies assume responsibility for many of the in-country volunteer costs and program support (staff) functions which are normally the responsibility of the Peace Corps, and volunteers are assigned to work in collaborating agency projects which meet Peace Corps programming criteria. One such agreement is being negotiated now for volunteers to work in Haiti.

The Peace Corps has entered into very few, if any, joint programs with public or private sector organizations in the United States (where until recently its recruitment, public information and Returned Volunteer programs have been administered by ACTION), nor has Peace Corp pursued collaborative relationships with profit-making organizations in the private sector overseas.

In an era of increasing emphasis and reliance on private sector development initiatives, of increasingly limited prospects for greater federal funding, and of increasing need for higher visibility in the United States, for more effective domestic and overseas programs, and for higher visibility in the United States, the challenge facing the Peace Corps is to expand mutually beneficial and appropriate relationships, including joint programs, with other public private sector organizations (including international organizations) in the United States and developing countries.

Constraints and Risks

The specific constraints and risks in developing relationships with public or private sector organizations vary depending upon the type of relationship envisioned and the number and type of organizations involved. However, several overall constraints and risks involved in expanding such relationships can be identified:

1. Organizational priorities/interests/purposes: Relationships, and especially joint programs, will of necessity be limited to those areas where enough commonality of priority, interest and purpose exist to make the relationships and objectives mutually beneficial and acceptable.

2. Organizational capabilities: In expanding public and private sector relationships, including joint programs, Peace Corps is constrained by its own institutional capacity (and that of the other organizations) to explore, negotiate, coordinate and effect agreements. Each organization has its own legal authorities, established procedures and time frames for action, with varying degrees of flexibility for each. Equally and, in some cases, more significant are the resource (staff and funding) constraints on an organization's capacity to get joint programs started.

3. Organizational policies/image: Relationship will also be constrained by organizational policies regarding associations that, for any variety of reasons, may not be in the organization's overall best interest. Certainly Peace Corps, for example, would not involve itself with any other organization identified, either in fact or by reputation, with intelligence activities. We would also not want to involve ourselves with any other organization whose activities, reputation, or image is such that association with it might damage our reputation or credibility either in the U.S. or, especially, overseas.

ALTERNATIVES

1. Complete a review of current joint programming overseas.

   Time: 6 months (Aug. 1982) to be completed as part of the review of country specific strategies in May.

Project Manager: Associate Director/Operations [Chief of Operations for each Region to prepare regional reports. Follow-up with Office of Private Sector Development and OPD.]

Objectives:

Identify all current collaborative projects, country-by-country (includes private profit, non-profit, AID, PVOs) - (May 1982).

Summarize projects by type of collaboration (June 1982).

Compare results with material already available in Peace Corps (May-June 1982).

Identify which projects are replicable in other places (July 1982).

Make information available throughout agency (Aug. 1982).

2. Enhance opportunities for continued and expanded Peace Corps/ AID collaboration.

Time: One year and beyond.

Project Manager: Director, Office of Program Development.

Objectives:

Begin half yearly meetings between Associate Director and high-level AID personnel to review current projects, including implementation problems, possible new initiatives and time frames for the initiatives. Communicate summary of meetings to field. (Begin March 1982)

Continue and enhance PASA agreement opportunities, including further development of sector specialists, their training, and the training of in-country staff. (Monthly AID Meetings)

Set revised goal for number of new AID/PC projects to be begun by end of FY 83. (September 1982)

Assign PCVs to AID sponsored project in-country where no Peace Corps program exists. (March 1983)

Negotiate and have a system in place whereby AID funds all Volunteer support for those Volunteers working in one AID collaborative project (Oman). (End of March 1983)

3. Identify other federal agencies with activities in the developing world and review opportunities for joint collaboration.

Time: 4 months and beyond.

Project Manager: Director, OPD.

Objectives:

Review status report on joint programming (prepared after Country narrative Strategy review) to determine current collaborative efforts. (June 1982)

Beginning with State Department, identify government groups with projects in developing world. (July 1982)

Contact each organization to: (a) describe current collaborative projects; (b) review briefly what Peace Corps does; and (c) begin discussion on potential areas of collaboration. (final quarter of FY 82)

As areas of interest begin to emerge, bring in desk and regional units to expand details. Send summaries of meetings to the field. (first two quarters of FY 83)

Begin two new joint programming efforts during FY 83, to be identified with more specific plans by October, 1982.

4. Undertake joint programming arrangements with a Private Voluntary Organization.

Time: One year.

Project: MLP Coordinator in OPD.

Objectives:

Identify current joint programming with PVO's if any. This can be done partly through results of report already mentioned. (June 1982)

Review results of letters sent to PVO's in October, concerning initiating Peace Corps projects through their organizations. (April 1982)

Review history of any such activity in the past. (April-May 1982)

If letters have been unsuccessful to date, review reasons by contacting some PVO's directly. (May 1982)

Review ways PVO's can be involved with Peace Corps other than those outlined in October letter. (April-May 1982)

Decide on two joint PVO projects to begin during FY 1983. (September 1983, after having series of meetings with heads of PVOs.)

5. Build opportunities for joint collaboration with the U.S. private sector through private sector activity in the United States.

Time: One year and beyond.

Project Manager: Office of Private Sector Development

A. Identify three firms which could provide technical support and assistance (full or part-time) to the sector specialists in OPD.

Discuss types of technical support needed for expansion with sector specialists. (April 1982)

Identify firms that have the types of expertise needed. (May - July 1982)

Contract firms for donation of required expertise. (Aug - Sept 1982)

B. Identify firms that can provide and donate technical expertise to stateside pre-service training programs (such as diesel mechanics, boat building, appropriate technology).

1. Discuss with Desks types of technical assistance needed that might not be covered in stateside contract or could supplement contract. (April or beyond)
2. Make contact with firms with required expertise. (May 1982)
3. Solicit support, both people with technical skills and equipment for training (engines, boats, etc.). (July - Sept 1982)

C. Identify firms that can provide and donate technical expertise to overseas Pre-Service and In-Service training programs. Same as above, except that firm would also furnish transportation for person(s) going overseas.

D. Identify private sector U.S. firms that can provide appropriate resources for host country projects on which volunteers are involved.

With desk and regional units, review specific ongoing or proposed projects which have been identified as priority projects for countries, particularly projects that cannot be started or continued because of lack of resources (cement or iron for wells, materials for school building, seeds of garden projects, etc.) (Spring 1982)

Select those projects that are most likely to be fundable, prioritize list. (Summer 1982)

Identify firms with resource potential that matches needs. (Fall 1982)

Build solicitation (?) campaign to these firms. Contributions would not be to Peace Corps, but would be to the country directly or to Peace Corps Partnership.

6. Build opportunities for joint collaboration with the private sector through private sector activity overseas.

Time: One year and beyond.

Project Manager: Office of Private Sector Development.

Objectives:

Identify potential firms working in Peace Corps countries that might donate in-kind resources for projects.

7. Focus private sector initiatives in the United States on relationships and joint programs which enhance recruitment and public awareness.

Project Manager: Director of Recruitment

Objectives:

A. Detailed 2-year strategy proposal for Director's review and approval submitted. (May 1)

B. Approved strategy reflected in FY 83 proposed management plans of all involved offices. (July 1)

Target organizations for strategy and plan:

1. Associations willing to support and publicize need for Peace Corps and for private sector support.

2. Organizations willing to support or participate in experimental programs aimed at increasing effectiveness of Peace Corps recruitment and public awareness efforts: (e.g. loan/provision of mailing lists, air time, facilities, equipment, technical assistance, etc.).

3. Employers willing to implement and publicize employment policies which:

   (a) Encourage Peace Corps volunteers or staff service by employees (leaves of absence, loaned staff, etc.);

   (b) Encourage employment of RPCV's (active recruitment program, etc.); and

   (c) Encourage continuing education of RPCV's (provision of scholarships, work/study programs, etc.).

4. Educational institutions willing to:

   (a) Grant credit for Peace Corps service;

   (b) Provide technical assistance to volunteers or staff in particular specialized areas;

   (c) Provide fellowships/scholarships for RPCV's; and

   (d) Assist in other ways.

## INITIATIVE 5

### Background

1) Historically two policies have contributed to the retardation of the pace of development in Peace Corps countries. There are a lack of use of free market mechanisms and a lack of local initiative in the planning execution of development projects.

2) Recently market-based policies have been advocated by the World Bank (particularly in Agriculture and Energy). The growth rate of GNP in countries like Korea, Singapore, Ivory Coast and Brazil has made market-based policies more attractive to many countries of the developing world. Therefore, there is a new emphasis on the use of free market mechanisms among some countries.

### Impact on Peace Corps and Past Attempts to Address Problem

1) Neither the use of free market mechanisms nor the use of local initiative are new to Peace Corps Projects.

2) In FY 81 Peace Corps assigned 209 trainees, recruited from four skill cluster assignment areas (Agricultural Economics, Business Management, Cooperatives and Accounting) to provide market economic skills.

3) In Agriculture projects, like Fisheries and vegetable production, Peace Corps has generated new economic activities and market possibilities.

4) The use of local initiative in the project planning and execution process is more the modus operand at Peace Corps than any other U.S. Development Agency; this has been the main raison d'etre for PASA's with USAID.

### Goal of Solution

Increase the functioning of free market mechanisms and increase local initiative in Peace Corps' projects.

Constraints which influence solutions are:

1) In some Peace Corps countries the level of direct active government planning and participation will make the adoption of free market mechanism and market-oriented projects difficult.

2) The use of free market mechanisms and local initiative must be adapted to traditional socioeconomic systems of the host countries.

Other factors which affect alternative solution and its implementation.

1) Projects should be geared to affect microeconomics operations.

2) Project emphasis should take into account local skills and traditions, the roles of the sexes, and the use of community development skills.

3) There is a need to adapt training to new projects with an emphasis on non-formal education materials development.

Recommended Alternatives.

See main body for recommended alternatives.

1. PROBLEM:

There is a lack of functioning of free market mechanisms and of the use of local initiatives in the developing world.

2. BACKGROUND TO PROBLEM:

In the past 30 years many people in the developing world have questioned the pace and direction of development within their countries. This questioning has included a questioning of direct foreign investment, and the examples of individual participation and local initiative in the development process. As Americans we share a past reflective of the common struggle of human existance as recorded through history; Americans have risen from poverty by incremental growth and development. As a nation, Americans made use of new inventions, new methods, and new ideas to help develop its resources and its economy. This rapid and successful development was made possible by the emergence of political-economic beliefs in democratic capitalism--an adherence to market-oriented output, a trust in economic liberty, and democratic participation to unlock the human potential from which production growth, and development flow. We have linked personal initiative and local participation with economic reward.

A questioning of the examples of the developing world was made possible by the availability of alternative sources of capital, technology, managerial talent and entrepreneurship for achieving economic diversification and growth. Alternate sources for some of the necessary inputs to growth and development were made possible by the creation of the World Bank, International Monetary Fund and direct bilaterial aid. Although these sources were highly successful at reestablishing the economies of Europe at the end of WWII (the reason for their creation), they were injected into systems which were based on principles of market-oriented capitalism and principles of participation as defined by democracy. The decisions of social investment were determined by these principles. Often in the developing world decisions of social investment are determined by central governments, in top-down planning process. Therefore, the infusion of development capital and other resources has proceeded with little regard for the actual desires and needs of local areas; or with little regard for local initiative.

As former colonies became developing nation-states they gained control over their economic relations and operations. The exercise of this control, the form it took, and the extent to which it lead to growth and development was in many ways dependent upon the level and type of government intervention or participation in the economy to give it direction. Too often in the developing world government participation has retarded incentives for people to produce, save, invest, and profit from legitimate risks and increase in labor productivity. From a macro perspective this has lead to economics which lack growth and development. It has also lead to economics unable to fully participate in the increasingly interdependent world economy of international trade. Therefore many of the benefits of international trade have also eluded these developing economics. From a micro perspective some forms of government participaiton have retarded the development of economic activists, entreprenuers with the necessary skills and incentives to try new methods and take new risks to increase productivity. Increasingly there are efforts among developing countries to include aspects of free market mechanisms in their economies.

## 3. IMPACT ON AGENCY:

The desire to increase the functioning of free market mechanisms and increase local initiatives has an effect on the content of Peace Corps programs in all sectors. This desire should lead to a somewhat different composition of programs, and a different emphasis within current programs. Program objectives should place less emphasis on the completion of physical aspects of projects (i.e., building roads or water projects, and delivering medicines) and concentrate more on helping people to attain capacity (i.e. training host country nationals how to build roads and water systems, and how to locally develop community health systems.). In agriculture the desire to increase functioning of free market mechanisms is intended to provide through market determined prices the incentives for, and lead to a self-sustained agricultural system by directly compensating farmers with increased income for socially desired production.

## 4. PAST ATTEMPTS TO ADDRESS PROBLEM:

Peace Corps is neither a stranger to the provision of market skills nor to institution and/or capacity building based on local initiative.

Peace Corps, with its unique developmental philosophy of grass-roots, human, people-to-people approach to unlocking potential, has been recognized for its volunteers' contribution to activating men and women to think new ideas, try new methods, and reduce material suffering. The use of local initiative is more the modus operandi at Peace Corps than any other U.S. Development agency; and therefore, the raison d'etre for PASA's with USAID.

Past activities to redress the lack of functioning of market mechanisms have been concentrated in assistance to small business enterprises and in agriculture sector activities. Currently Peace Corps has volunteers recruited from four skill cluster assignment areas (agricultural economics, business management, cooperatives, and accounting) involved in providing business skills consistant with the use of market principles. These skills, needed to develop economic activists, are necessary to extend the marketing infrastructure (making use of the functional approach to the provision of goods and services which includes physical functions, marketing functions, and facilitating functions, the area of Peace Corps' increased concern concentrates on marketing and facilitating functions.) Areas of Peace Corps programming range from cottage industries and general stores to the production and marketing of handicrafts. Most programs of this type are rural based and related closely to rural/agricultural activities. Most are aimed at supplying goods and services to farmers and farm families.

In agriculture, Peace Corps cooperative programs may take the form of processing cooperatives, rural supply cooperatives, marketing cooperatives, and transportation cooperatives. Projects have also been undertaken which work with women on aspects of agricultural processing and marketing. Within the agricultural sector the goals of the sector have been redefined to place less emphasis of the physical function of crop or animal production and place greater emphasis on the physical function of storage and aspects of marketing.

In Fisheries programs, Peace Corps has consistently emphasized the importance of capacity-building objectives, (i.e., the development of more highly skilled fishermen and fish farmers). This contrasts with many development fisheries projects over the last two decades which have devoted their efforts to production goals such as maximizing kilograms/hectare/year; and to constructing large government fish culture stations. The key factors in Peace Corps' success in fisheries has been the intensity of the extension effort around profit incentive, independence of the fishermen/farmers, and the simplicity of the technology.

With some exceptions, Peace Corps Fisheries programs have not strongly emphasized marketing aspects. Geographically close, immediate demand for fish has been so high relative to supply that most of the effort has been logically aimed at improving people's ability to produce fish. Marketing will become a higher priority when significant bottlenecks develop because of needs to process and transport fish.

Village and community level projects in health and nutrition attempt to include the active participation of community representatives in the planning implementation and evaluation of projects. This involvement preferably can be realized through existing community, organizations. Where these are ineffective or insufficient, new ones (e.g. village health committees) might be organized. The goal is to build local capacities to deal with community health problems and to develop programs related to the needs identified by the community. Projects would include for example:

- training traditional healers or local volunteers to deliver primary health care;

- vegetable gardening and food preservation to supplement the diet, and marketing to generate additional income (often for the community health project);
- mother's classes to promote better health and nutrition awareness;
- community-based nutrition rehabilitation centers where preschoolers can be periodically weighed, and given supplementary food prepared by the mothers; and
- school-based nutrition and health activities.

Volunteers working in the area of energy have been focusing on developing prototypes for a number of technological interventions and training local artisians in the construction, operation and maintenance of such systems. Successful examples of such work are in the areas of hydrams for irrigation or village water supply, solar food dryers, and improved cookstoves. The most noteworthy example is with cookstoves in Senegal where one volunteer has trained Senegalese masons and other PCV's and government agriculture extension workers in the art of construction. Thousands of stoves have already been built in a number of villages scattered throughout the country.

There is an increasing emphasis and commitment by the Water/Sanitation sector to encourage trainees and volunteers to be trainers of counterparts and villagers who are involved with Water/Sanitation programs. The role of the volunteer as a trainer, passing his/her skills to counterparts, is gaining greater attention in the design and conduct of the technical training programs.

In Forestry and Natural Resource projects, Peace Corps strives to enable rural people to achieve a greater degree of self-reliance in meeting their needs for wood, water, and fertile soil. To develop this capability, PCV's live at their work site and implement projects that use local labor and appropriate technology.

More specifically, PCV's help establish village woodlots that supply building materials and fuelwood. Volunteers work as forestry extension agents, introducing soil conservation techniques that preserve or improve soil fertility and maintain a regular supply of potable water for a community.

The outputs from Peace Corps forestry and natural resource projects are often commercially viable. Farmers can plant fast growing species of trees that within one or two years can be used for fuelwood or poles for construction. There is a consistently strong market for these products throughout the developing world. Tree seedlings grown in small nurseries can also be a source of income for farmers and rural people. Although Peace Corps generally tries to increase production of a commodity, one exception is the introduction of more fuel efficient wood-burning stoves by PCVs in many countries. Yet, while reducing consumption of one commodity, the stoves themselves have become a marketable item for enterprising villagers. By developing projects that clearly satisfy a local need, Peace Corps Forestry enhances a community's independence and enterprise.

Within the education sector Peace Corps Volunteers are engaged in both income generation projects, making use of market principles and projects to increase local initiative through a variety of secondary projects. For example: market-oriented projects exist in the areas of school gardens and more importantly small animal husbandry; and secondary projects making use of local initiative exist in the areas of health, energy, and water and sanitation.

5. GOAL OF SOLUTION:

Increase the functioning of free market mechanisms and increase local initiative in Peace Corps' projects.

6. RELATIVE PRIORITY OF NEED:

Since the administration's emphasis will be on the importance of market-oriented policies and the development and strengthening of local initiative, the addressing of this problem should be of the highest priority.

7. CONSTRAINTS WHICH INFLUENCE SOLUTIONS:

The two major constraints to increasing the functioning of free market mechanisms are external to the Peace Corps programming system. The first constraint is generated by the political economic relationships established by some host countries. As mentioned above all economics include some type of government participation. Government participation is abstracted into two models. The first model is distinguished by the market mechanism determining prices and levels of output, and allocating resources between various sectors of the economy. Here, government participation is indirect active. The government, as administrator of the economic system provides a general climate within which the economy can grow and develop (i.e., the government does things like control the money supply). The government also can provide incentives or can place constraints on both private and public sectors which can make that economy's growth more consistent with development goals. In the second model, the centrally planned economy, the government controls and allocates resources to productive ends. This is accomplished not on the basis of supply, demand, and price; but in relation to targets as dictated by a centrally conceived plan which reflects the governments desires for levels and types of distribution, and consumption of goods and service produced by the society. This is called direct active participation by government. Most countries within which Peace Corps operates are in reality mixed economies and have adopted modes of operation which are a compromise between government direct and indirect active participation. The closer this compromise is to the use of the free market model, the more appropriate Peace Corps' desire to increase market mechanisms and local initiatives will be; also the more receptive these countries will be to Peace Corps new program directions.

The second constraint is generated by the socioeconomic systems traditional to some host countries. Concepts of wealth, profit, capital, savings and economic investment are different from those Adam Smith envisioned. Also, there are differences in beliefs of the social sharing of skills, responsibility, and returns to investment. To the extent that increasing the use of free market mechanisms is dependent upon shared socioeconomic beliefs, this increase will be slow in some Peace Corps countries and projects.

8. OTHER FACTORS WHICH AFFECT ALTERNATIVE SOLUTIONS AND THEIR IMPLEMENTATION:

1) Because Peace Corps is not a financial donor organization, we can have little impact on macroeconomic planning. However, we can impact microeconomic operations.

2) Project emphasis should take into account local skills and traditions. Local initiatives should build on local organizing and operating principles.

3) Projects must be aware of the roles of the sexes and how proposals affect these roles.

4) Projects suggest a move from specific skills to community development skills with different characteristics for recruitment and selection.

5) There will be a need to adapt core curriculum, inservice and preservice training.

6) There must be development of simple ways of presenting materials and concepts without reading and writing (Non-Formal Education use of pictures and color codes to maintain projects).

9. RECOMMENDED ALTERNATIVES

Alternative #1: Increased Use of Local Initiative.

Because Peace Corps is currently in the vanguard in designing and implementing projects which instill and make use of local initiative no recommendations are being made for any change.

Alternative #2: Increased Use of Free Market Mechanisms.

The primary goal is to develop volunteer programs geared to the free enterprise system and open markets enhancing the capacity of Peace Corps to train and program at the grass-roots level to increase the understanding, operation, and implementation of economic activities and enterprises which make use of free market mechanisms. This alternative has three main objectives; two sector specific and one geographically specific.

Objective #1:

Increase the number of volunteers to work with emerging economic activities and forms of organization by enhancing the capacity of Peace Corps to program and train in the area of small scale enterprise and cooperative development operating with the use of free market mechanisms.

Tasks would include:

A. An ability to increase small business enterprise and cooperatives programs worldwide, and adapt these programs to a variety of development situations. Management systems affected include: Recruitment Programming, Assessment and Tracking System.

B. An ability to better train in community analysis skills and the adaption of those skills to a variety of settings and differing stages in the use of market economic principles. Peace Corps currently has some useful information on this area. There is a cooperatives resource packet developed and used by I.C.E. PC/Columbia developed an accounting system for small business.

The objective would most likely require the development of a sector to handle Small Scale Enterprise and Cooperative development. Such a sector (composed of a sector specialist supported by an assistant and secretary) would have first year outputs of: development of a programming manual; programming 3 countries in each region; conducting in-service training for 9 countries; and the preliminary development of a training manual. The second year would involve programming 9 more countries; in-service training; and completion of a training manual. Estimated budget for two years is:

PROPOSED 2 YEAR BUDGET

| | |
|---|---|
| Personnel Salaries and Benefits | 174,800 |
| 1st Year Programming, and Program Manual Development | 82,500 |
| 2nd Year Programming | 29,500 |
| Development of Training Manual | 95,000 |
| In-Service Training Workshops | 405,000 |
| Recruitment Efforts | 100,000 |
| TOTAL | 886,800 |

The establishment and support of such a sector should be of interest to the U.S. Chamber of Commerce. A decision is necessary on which responsibilities would rest with private sector coordination and which would rest with OPD.

Objective #2:

Increase volunteer strength in agricultural sub-sectors which improve the ability of farming populations to take advantage of market-oriented production opportunities by enhancing the capacity of Peace Corps to program and train volunteers for Post Harvest sub-sectors of the agricultural system. The extension of market-oriented policies is dependent upon the following tasks:

A. Analysis on a country-by-country basis to determine the extent of market-oriented production opportunities and current organizations and institutions involved with the marketing of food crops. This in-country data collection could rely on primary work done by USAID, UNDP, FAO, World Bank and host country ministries and requires no additional resource costs.

B. Increase in Peace Corps ability to work in the area of storage by enhancing Peace Corps capacity to program and train in aspect of storage. It is necessary to develop a program criteria document. Currently Peace Corps is attempting to coordinate training activities with USAID to make use of contracts with Kansas State University (who has already trained volunteers in storage for Tanzania), and the University of Idaho. The estimated cost of this training was $45,615; without use of USAID's Kansas State contract, this training program would have cost Peace Corps approximately $65,000. There is a possibility to establish an S.S.T. for approximately 30T's per year in grain storage. Besides a training capability, Kansas State through USAID could in the future also provide some needed expertise in the field to assist with in-service training and programming. Kansas State University has also drafted a training manual.

C. Increase Peace Corps ability to work in the area of marketing functions by enhancing Peace Corps capacity to program and train volunteers in market relations.

D. Increase Peace Corps ability to work in the area of facilitating functions such as credit and market information, and grades and standards by enhancing Peace Corps capacity to program and train in the area of facilitating functions.

Tasks C and D require the development of Program Criteria Documentation. Assistance to the field for program development if carried out by PSCs would cost approximately $10,000 per person/month. It would also be necessary to establish a S.S.T., in-country, or third country training capability. It may also be possible to coordinate some of these activities with USAID.

Note on Objective #2

Currently, most of the volunteers in the agriculture sector are concentrated in the productive sub-sector. This has improved farmers' abilities to produce more agricultural produce. However, very little has been done to assist farmers in other sub-sectors which would enable them to take advantage of market opportunities which have merged because of increased needs for food in urban places. Most countries within which Peace Corps operates have done little to make use of market principles in the disposition of surplus food from rural areas. This has been the greatest factor in retarding self-sustaining agricultural system in these countries. It is worth noting that food marketing is an area where the constraints pointed out earlier may have an effect. Urban populations are often an important target group for politicians and therefore prices are often kept artificially low to minimize urban bills. State Corporations also abound in agricultural sectors.

Objective #3:

Increase the functioning of market mechanisms at the geographical point critical to providing economic incentives to farmers, and farm families, and nonfarm agriculturally related enterprises by enhancing Peace Corps capacity to program and train volunteers to be located in secondary cities (market towns).

This objective is geographic and therefore provides a geographical focus to tasks mentioned elsewhere. One new task is:

A. The development of projects which assist regional planning efforts within Host Countries where trained personnel are in short supply. There may be some coordination possibilities with USAID, Office of Urban Development.

Note on Objective #3

Secondary cities (market towns) have emerged as very important to the economic well-being of rural residents; and it is the most important geographical location for market mechanisms to be understood and implemented. From an economic functional view, this is the most important location for marketing functions to take place. This is true both for farm production moving from urban market (amassing bulk) and for manufactured and imported goods moving from urban areas to rural residents (breaking bulk). Secondary cities are also important focuses for two other reasons. First, they are areas where, as labor specialization increases, farm families obtain an increasing level of services. Also, as rural to urban migration patterns have shifted, secondary cities have become areas where population growth of currently under employed rural residents is taking place. Therefore, since they are important areas for the marketing of goods and services; as well as areas where employment opportunities exist, and areas with a need to generate employable skills, secondary cities are necessary focuses for programs of income generation involving the market mechanism.

## RECRUITMENT/COST BENEFIT

Senator Inouye: With reference to the number of volunteers serving overseas, you have stated, "We have chosen to emphasize quality over quantity."

I think this is a laudable goal, but I am curious as to how you can, given this emphasis, "Apply a cost-benefit analysis to all recruitment activities." Can you explain?

Mrs. Ruppe: The budgetary constraints which face the Peace Corps require that we review all our activities to assure that we are investing our funds only in those processes which are most productive. In the recruitment area this means a review, campaign by campaign, of where we are having the highest degree of success -- in terms of generating recruits -- and a weeding-out of those activities that are planned "because they've been done every year" which are less productive. Under no circumstances will we jeopardize quality over quantity in this process.

## CONCLUDING REMARKS

Senator Kasten. I would like to say thank you for the job you are doing. We enjoyed working with you last year, and we were happy to get a bill passed last year. We are happy to make the kind of progress that we are making.

I congratulate you for the job you are doing, and we want to work with you particularly, and I personally would like to work with you in any way on this private sector effort. I am very interested in that, and I think this is clearly the way to go for a number of the reasons which you discussed.

If we as a subcommittee could be of help in that area in particular, we would like very much to do it.

So the record of this hearing will remain open for 2 weeks in order that members of the subcommittee may submit questions for the record.

## SUBCOMMITTEE RECESS

The subcommittee will now stand in recess until Thursday, April 29, at which time we will hear testimony from Under Secretary of State Buckley on the administration's fiscal 1983 budget request for their international security assistance program.

Thank you.

[Whereupon, at 3:10 p.m., Tuesday, April 27, the subcommittee was recessed to reconvene on Thursday, April 29.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, APRIL 29, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 3 p.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman), presiding.

Present: Senators Kasten, Inouye, and Leahy.

## DEPARTMENT OF STATE

### SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

### STATEMENT OF HON. JAMES L. BUCKLEY, UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

### ACCOMPANIED BY DR. HENRY H. GAFFNEY, DIRECTOR FOR PLANS, DEFENSE SECURITY ASSISTANCE AGENCY

### OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This afternoon we will receive testimony in support of the administration's fiscal year 1982 supplemental and fiscal year 1983 regular request for international security assistance. These requests, especially the one for fiscal year 1983, represent for the Reagan administration both the heart of its foreign assistance program and the departure point from previous administrations' foreign assistance policies and programs.

In addition, it will be a focus of controversy and difficulty here on Capitol Hill as this administration's total foreign assistance request exceeds the current level by nearly $1.5 billion or 18 percent. Obviously at a time when domestic programs of all types are being reduced, an increase for foreign aid will be difficult.

We are going to be asking many of the new leaders in Congress who have opposed foreign aid in the past to fight for this increase, despite the budgetary constraints and restraints on programs which are close to many of our constituents.

While I recognize the funds that you are seeking on an individual case-by-case basis are largely justified, I think it is going to be very difficult as we work through this year's budget.

Additionally, the request is going to be difficult because there seems to be an air of conflict between the Hill and the administration, both in the Senate and in the House on a number of these issues.

Last year's extraordinary effort will have to be exceeded this year, although there remain some sore points, especially with regard to the administration's disregard of the direction by this committee on the economic support funds for Israel.

A continuing disregard of these directions is not going to help to reformulate the coalition which passed foreign assistance last year. So, while I want to be helpful, and I will be helpful, it is going to take a lot of work and a new effort by the administration and the State Department, in particular, to be more responsive to Congress in the days ahead.

We have received a statement by Dr. Gaffney of the Defense Security Assistance Agency who is, I understand, here to provide you with technical backup. We have not reviewed Mr. Gaffney's statement, nor do we have questions of him, but I will insert his statement in full in the record.

Now, first of all, Senator Inouye, do you have any statement at this time?

Senator INOUYE. I just want to point out that I haven't received Dr. Gaffney's statement. I just got it and I haven't had time to look at it. I won't be in any position to ask any questions.

Senator KASTEN. We received it late last night.

Senator INOUYE. I think it is an unusual procedure, but it is difficult for me to endorse or be against anything not knowing what is in there.

Senator KASTEN. As Secretary Buckley knows, we have been in a continuing conflict with the State Department to try to get this information up to us in time. Your statement was here 3 days before the hearing this time.

But nevertheless, Secretary Buckley, if you could proceed with your statement, which I know you will summarize, then we will proceed with questions.

Secretary Buckley.

### INCREASED FUNDING FOR FOREIGN ASSISTANCE

Mr. BUCKLEY. Thank you, Mr. Chairman.

What I will read is an abbreviated version of the whole, but I would appreciate the original being inserted in the record.

Custom decrees that I say I am delighted to be here to present the administration's 1983 foreign assistance program. The fact is that we find no more joy in presenting a request for increased funding than I know your committee does in having to entertain it.

We are grateful for the committee's approval of our full request last year, and we are as concerned as you about the need to keep Federal spending at the lowest feasible levels. Yet we have no responsible choice but to urge your approval for the security assistance program the President has proposed for fiscal 1983.

These levels are the minimum necessary to support the highest priorities of U.S. foreign policy. These reflect the hard need imposed by events outside our borders which have direct impact on our ultimate safety and well-being.

We are familiar with the events in the last year. The Soviets have established and continue to apply pressure on countries around the globe, and they are launching new offensives in Afghanistan. Poland's bid for greater freedom has been crushed. Vietnamese troops occupy Kampuchea. In Africa and the Caribbean Basin Cuban troops or Cuban-supported troops pose a direct threat to our vital interests.

### SOVIET POWER SHIFT TO LESS-DEVELOPED NATIONS

If history teaches us anything, it is that weakness attracts the predator. Hence we have seen a shift in the Soviet's global challenge from the industrialized states of Europe to the less developed nations of the Middle East, Africa and, closer to home, the Caribbean.

To meet these urgent challenges abroad and to minimize the cost to taxpayers at home, this administration has adopted a fundamentally new approach in arriving at our security assistance program for fiscal 1983. We have explicitly defined our Nation's vital foreign policy objectives and painstakingly allocated all foreign assistance resources against our priority goals.

The resulting program will marshal the minimum resources necessary to promote peaceful solutions to regional rivalries, assure U.S. access to critical military facilities and basic raw materials, confront growing military threats and subversive efforts by the Soviets and their proxies, and reduce the economic and social degradation that breeds domestic violence and invites external intervention.

The details of our fiscal 1983 request are set forth in the Department's booklet, "International Security and Economic Cooperation Program," which has been made available to the Congress.

What I would now like to do is review briefly the major foreign policy objectives described in that booklet and explain why the requested security assistance is necessary to attain our goals.

### MIDDLE EAST

Over 53 percent of the entire fiscal year 1983 security program will be directed in support of our Middle East objectives; namely, the search for a just and lasting peace and the urgent requirement that our friends in the region be secure against external threats. These objectives are mutually reinforcing.

The security and economic health of Israel and Egypt are requisite for further broadening the peace process in the Middle East. U.S. assistance programs tangibly reflect our support and help give these nations the confidence to continue in the path toward peace begun at Camp David.

Our assistance to Israel and Egypt, along with our aid to Jordan, Lebanon, and the regional program provides a security and economic basis essential to ultimate stability in the region.

### EUROPE

The President is allocating 19 percent of the program, $1.6 billion, in support of our interests in Europe. The strategic importance to NATO of Europe's southern flank has been dramatically underscored by events this past year.

With neighboring regions facing a growing challenge, our efforts to assist Greece, Turkey, Spain, and Portugal have assumed increasing importance. Helping these nations through our security assistance program is an important contribution to our common defense, not only against threats to Europe, but also against challenges to our common interests beyond the geographic bounds of the Alliance.

Turkey, for example, lies at the intersection of our NATO, Middle East, and Persian Gulf security concerns. Spain and Portugal, the other major security assistance recipients, are important not only to our NATO defenses, but also to our capabilities to project military forces from the United States to Africa and the Middle East.

### PERSIAN GULF AND SOUTHWEST ASIA

Ten percent of our proposed security assistance program is directed to insuring our continued access to Southwest Asia and the Persian Gulf and to the region's critically important resources.

Almost all nations in the area stretching from Morocco to Pakistan face serious economic problems and potential subversion or regional threats. Our proposal for military modernization and economic assistance will help Pakistan to deter attacks from Afghanistan and facilitate the economic development essential to internal stability.

Sudan, Morocco, and Tunisia all face, to one degree or another, threats of subversion or aggression emanating from Libya. All are important not only to our strategy for the security of the Persian Gulf, but potentially to the prospects for peace in the Middle East, as well.

To help secure our interests in the Indian Ocean, we are helping Kenya and Somalia achieve economic self-reliance and improve defense capabilities. In turn both nations provide U.S. forces with access to facilities, thus contributing significantly to our ability to sustain a credible deterrent posture in the region.

### CARIBBEAN BASIN

Our plan for restoring stability and improving economic prospects in the Caribbean Basin will require $433 million in security assistance for 1983. You are all thoroughly familiar with the approach that has been adopted by the administration in this regard.

I would only point out that the announced amounts allocated for military assistance represent just 16 percent of our total program for the Caribbean Basin.

### EAST ASIA

Requests in support of our Pacific interests represent a modest fraction, only 6 percent, but nevertheless a vital part of our fiscal

1983 security assistance program. This region is of major political, strategic, and economic importance to the United States.

We have significant treaty relationships with Japan, Korea, the Philippines, Thailand, and our Anzus partners. U.S. trade with the area now surpasses that with Western Europe. We have in Northeast Asia a strong and economically vital South Korea that is able to deter its northern neighbor from military adventures.

A Soviet-supported 200,000-man Vietnamese army remains in Kampuchea and threatens Thailand's security.

The Philippines provide the United States with a central military facility and Indonesia and Malaysia straddle important sealanes.

## AFRICA

Our proposed $177 million security assistance program for Southern Africa is designed to advance the peaceful establishment of an independent Namibia, to help ensure continued Western access to key strategic minerals, and to support the development process from Zaire south.

We must fulfill our undertaking to assist the economic development of the frontline states of Southern Africa whose participation is essential to the stability of a region rich in minerals essential to our economic well-being.

In West Africa modest levels of security assistance are essential if we are to help maintain economic and political resilience and discourage further Libyan attempts to exploit the financial difficulties faced by several nations.

To support these essential goals, the President is requesting and is committed to defending a total of $8.7 billion of security assistance programs. Of this, $4.8 billion requires budget authority, the balance of $3.9 billion being in the form of off-budget FMS guarantees.

The foreign policy objectives I have just outlined are those we strive to attain with those resources. As never before, the President's program has been carefully structured to address only our most critical needs.

We again seek authority to provide concessional assistance to key countries, in order to make it possible for them to purchase defense equipment and services that we believe is in our interest for them to have.

We are asking this because we believe that concessional rates provide us with maximum flexibility in meeting the specific needs of security assistance recipients. In contrast with grants, over the longer term they also lower the net cost to the U.S. taxpayer.

## FISCAL YEAR 1982 SUPPLEMENTAL REQUEST

I would now like to take this opportunity, Mr. Chairman, to address the administration's fiscal year 1982 security assistance supplemental request.

Last fall the Congress authorized the absolute minimum needed for fiscal year 1982 security assistance. Despite this committee's recommendation, Congress ultimately appropriated $301 million less. At the appropriated levels——

Senator **Kasten**. We will both have to leave to vote, and we will come back shortly, if you will just excuse us.

Mr. **Buckley**. Yes.

[Recess to permit a vote by subcommittee members.]

Senator **Kasten**. The subcommittee will come to order.

Please continue.

Mr. **Buckley**. I started addressing the 1982 supplemental.

Last fall Congress authorized the absolute minimum needed for fiscal year 1982 security assistance. Despite this committee's recommendation, Congress ultimately appropriated $301 million less than was authorized.

At the appropriated levels we have had to make damaging choices between which of our foreign policy objectives to support adequately and which to neglect. Our request would restore the amounts appropriated for fiscal year 1982 to the authorized levels.

This supplemental request would provide $115.5 million in budget authority and $186 million in off-budget FMS loan guarantees to support critical American interests in four strategic areas:

First, the gateway to the Mediterranean, which is NATO's southwestern flank and the access region for the Middle East. An effective presence in the Middle East requires that our 6th Fleet and rapid deployment forces have assured access to bases enroute.

The supplemental increases off-budget FMS guarantees to Spain, Portugal, Tunisia, and Morocco. Adequate aid to Spain is critical to the success of our base negotiations, and similar negotiatons will soon be undertaken with Portugal.

The second category is Southeastern Europe and the Horn of Africa. The supplemental would add off-budget FMS guarantees for Turkey and provide grants to Somalia and Sudan. Turkey and Somalia offer access to critical facilities, and Sudan's territorial integrity is an important factor in the Middle East.

The third area is Central America. As you know, Cuba and Nicaragua have coupled an unprecedented military buildup with increased support for subversive groups. The supplemental fulfills the President's pledge to complement the Caribbean Basin Initiative with adequate military assistance grants to El Salvador and Honduras.

Fourth is the Far East. Despite North Korea's continuing military advantage, we have consistently cut appropriations to South Korea below our initial planning levels. In Southeast Asia the Vietnamese directly threaten Thailand. The supplemental provides off-budget guarantees to help South Korea and Thailand modernize their forces.

On another subject, Mr. Chairman, I understand that this subcommittee has assumed jurisdiction over the administration's request for fiscal year 1982 supplemental action to permit operation of the Special Defense Acquisition Fund.

I hope we can once again count on your support for this important initiative which will enable us to respond in a timely manner to the military needs of our allies and friends without degrading our own defense readiness. This is added since 72 hours ago.

Senator **Kasten**. I would say that is different from the statement we received.

### SECURITY ASSISTANCE FUNDS

Mr. Buckley. In conclusion, I want to assure you that in these most difficult years the President would not ask for additional security assistance if he were not absolutely convinced that these resources are essential to the prospects for peace and for the defense of essential American interests throughout the globe.

Without them the President would be forced to decide which objectives of our foreign policy to pursue and which to abandon or neglect.

For example, he would be forced to face such damaging choices as scaling back our Spanish bases in order to finance our Caribbean Initiative, or of shifting resources away from Turkey to address our needs in Sudan, Korea, and Somalia, or abandoning our undertakings and initiatives in such important areas as Southern Africa and Southest Asia in order to meet our commitments in the Middle East.

Unless we are willing to make these investments in peace and security today, we risk far greater costs to both our safety and national treasure tomorrow.

### PREPARED STATEMENTS

[The statements of Mr. James L. Buckley and Dr. Henry H. Gaffney follows:]

# PREPARED STATEMENT OF HON. JAMES L. BUCKLEY

UNDER SECRETARY OF STATE
FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE,

TRADITION CALLS FOR ME TO SAY HOW DELIGHTED I AM TO BE HERE TODAY TO PRESENT THE ADMINISTRATION'S 1983 FOREIGN ASSISTANCE PROGRAM. THE ADMINISTRATION IS VERY MINDFUL OF THIS COMMITTEE'S APPROVAL OF OUR FULL REQUEST LAST YEAR, AND WE ARE GRATEFUL FOR YOUR EFFORTS. BUT FRANKLY, I FIND THE NECESSITY TO SUBMIT REQUESTS FOR EXPENDITURES THAT ARE HIGHER THAN CURRENT LEVELS AS PAINFUL AS YOU WILL NO DOUBT FIND THE NECESSITY TO CONSIDER THEM.

WE ARE AS CONCERNED AS YOU ABOUT THE NEED TO KEEP FEDERAL SPENDING AT THE LOWEST FEASIBLE LEVELS, YET WE HAVE NO RESPONSIBLECHOICE BUT TO URGE YOUR APPROVAL FOR THE SECURITY ASSISTANCE PROGRAM THE PRESIDENT HAS PROPOSED FOR FISCAL YEAR 1983. THESE LEVELS ARE THE MINIMUM NECESSARY TO SUPPORT THE HIGHEST PRIORITIES OF U.S. FOREIGN POLICY. THEY REFLECT THE HARD NECESSITY IMPOSED BY EVENTS OUTSIDE OUR BORDERS WHICH HAVE DIRECT IMPACT ON OUR ULTIMATE SAFETY AND WELL-BEING.

CLOSE TO HOME AND IN DISTANT LANDS, OUR NATION'S MOST IMPORTANT MILITARY, POLITICAL AND ECONOMIC INTERESTS ARE BEING CHALLENGED. SECURITY ASSISTANCE IS THE MOST COST-EFFECTIVE INVESTMENT WE CAN MAKE BOTH TO MEET TODAY'S CHALLENGES AND TO ENHANCE THE PROSPECTS FOR A SAFER FUTURE IN WHICH ALL NATIONS OBSERVE THE MAXIM OF "LIVE AND LET LIVE". AT THE PRESENT TIME, HOWEVER, STRATEGICALLY-LOCATED FRIENDS AND ALLIES ARE UNDER CONTINUING PRESSURE FROM THE SOVIETS AND THEIR PROXIES. SOVIET OCCUPATION FORCES IN AFGHANISTAN HAVE STEPPED UP THEIR OPERATIONS. THE BID FOR GREATER FREEDOM HAS BEEN CRUSHED IN POLAND. WITH SOVIET ARMS AND SUPPORT, VIETNAMESE TROOPS CONTINUE TO OCCUPY KAMPUCHEA AND THREATEN THAILAND. IN AFRICA AND IN THE CARIBBEAN BASIN CUBAN TROOPS OR CUBAN-SUPPORTED GUERILLA FORCES POSE A DIRECT THREAT TO OUR MOST VITAL INTERESTS. IN EACH OF THESE REGIONS WE FACE THE CHOICE OF STRENGTHENING KEY FRIENDS AND ALLIES TODAY, OR TRYING TO DEFEND OUR INTERESTS OURSELVES TOMORROW.

WEAKNESS ATTRACTS THE PREDATOR. HENCE IT IS UNDERSTANDABLE THAT THE ARENA OF GLOBAL CHALLENGE HAS INCREASINGLY SHIFTED FROM THE INDUSTRIALIZED STATES OF EUROPE AND ASIA TO THE LESS-DEVELOPED NATIONS OF ASIA, THE MIDDLE EAST, AFRICA

AND, CLOSER TO HOME, THE CARIBBEAN. A FAILURE TO ACHIEVE VIABLE ECONOMIES, CREDIBLE DEFENSES, AND STABLE POLITICAL INSTITUTIONS MAKES THESE LESS-DEVELOPED NATIONS INVITING TARGETS FOR SUBVERSION.

TO MEET THESE URGENT CHALLENGES ABROAD AND TO MINIMIZE THE COST TO TAXPAYERS AT HOME, THIS ADMINISTRATION HAS ADOPTED A FUNDAMENTALLY NEW APPROACH IN ARRIVING AT OUR SECURITY ASSISTANCE PROGRAM FOR FISCAL YEAR 1983. WE HAVE EXPLICITLY DEFINED OUR NATION'S VITAL FOREIGN POLICY OBJECTIVES AND PAINSTAKINGLY ALLOCATED ALL FOREIGN ASSISTANCE RESOURCES AGAINST THESE PRIORITY GOALS. AS MANY OF YOU CAN APPRECIATE, THIS HAS NECESSARILY PROLONGED THE PROCESS AND DELAYED THE SUBMISSION OF SOME CONGRESSIONAL PRESENTATION MATERIALS. HOWEVER, WE BELIEVE THE RESULTING PROGRAM CONTAINS THE MINIMUM REQUIRED RESOURCES TO:

-- PROMOTE PEACEFUL SOLUTIONS TO REGIONAL RIVALRIES;

-- ASSURE U.S. ACCESS TO CRITICAL MILITARY FACILITIES AND BASIC RAW MATERIALS;

-- CONFRONT GROWING MILITARY THREATS FROM, AND SUBVERSIVE EFFORTS BY, THE SOVIETS; AND

-- REDUCE THE ECONOMIC AND SOCIAL TURMOIL THAT BREEDS DOMESTIC VIOLENCE AND INVITES EXTERNAL INTERVENTION.

THE ENTIRE PROGRAM HAS BEEN CAREFULLY SCRUTINIZED BY THE PRESIDENT TO ENSURE THAT OUR RESOURCES ARE IN FACT DIRECTED TOWARD OUR MOST IMPORTANT GOALS. THE FINAL SCRUTINY, OF COURSE, WILL BE YOURS. BUT GIVEN THE CARE WITH WHICH THIS REQUEST HAS BEEN CONSTRUCTED AND THE PRESSING NEEDS IT HAS BEEN DESIGNED TO MEET, I URGE YOUR COMMITTEE AND THE CONGRESS TO APPROVE IT IN FULL.

I WOULD INVITE YOUR ATTENTION TO THE DEPARTMENT'S BOOKLET, "INTERNATIONAL SECURITY AND ECONOMIC COOPERATION PROGRAM, FISCAL YEAR 1983," WHICH HAS BEEN MADE AVAILABLE TO THE CONGRESS. SINCE THE DETAILS OF OUR FY 1983 PROGRAM ARE SET FORTH IN THIS DOCUMENT, I WILL FOREGO LISTING ALL OF THE SPECIFIC LEVELS AND INSTEAD SUMMARIZE THE MAJOR REGIONAL ELEMENTS. I WOULD NOW LIKE TO REVIEW BRIEFLY THE MAJOR FOREIGN POLICY OBJECTIVES TOWARD WHICH OUR PROPOSED PROGRAM HAS BEEN TAILORED AND EXPLAIN WHY THE REQUESTED SECURITY ASSISTANCE IS NECESSARY TO ATTAIN THE GOALS WE SEEK.

OVER 53 PERCENT OF THE ENTIRE FY 1983 SECURITY ASSISTANCE PROGRAM WILL BE DIRECTED IN SUPPORT OF OUR MIDDLE EAST OBJECTIVES, NAMELY THE SEARCH FOR A JUST AND LASTING PEACE AND THE URGENT REQUIREMENT THAT FRIENDS IN THE REGION BE SECURE AGAINST EXTERNAL THREATS. THESE OBJECTIVES ARE

MUTUALLY REINFORCING. NO PEACE IS POSSIBLE UNLESS THE NATIONS OF THE REGION ARE SECURE FROM OUTSIDE COERCION, AND SECURITY WILL NOT BE ACHIEVED IF WE FAIL TO ADDRESS THE UNDERLYING SOURCES OF CONFLICT AND INSTABILITY.

OUR SECURITY ASSISTANCE SERVES BOTH OF THESE OBJECTIVES. IT SEEKS TO ADVANCE ECONOMIC WELL-BEING AND POLITICAL STABILITY IN THE REGION. THE SECURITY AND ECONOMIC HEALTH OF ISRAEL AND EGYPT ARE REQUISITES FOR FURTHER BROADENING THE PEACE IN THE MIDDLE EAST. U.S. ASSISTANCE PROGRAMS TANGIBLY REFLECT OUR SUPPORT AND HELP GIVE THESE NATIONS THE CONFIDENCE TO CONTINUE ON THE PATH TOWARD PEACE BEGUN AT CAMP DAVID. OUR ASSISTANCE TO ISRAEL AND EGYPT, ALONG WITH OUR AID TO JORDAN, LEBANON AND THE SMALL REGIONAL PROGRAM, PROVIDES A SECURITY AND ECONOMIC BASE ESSENTIAL TO ULTIMATE STABILITY AND PEACE WITHIN THE REGION.

THE PRESIDENT IS ALLOCATING 19 PERCENT OF THE PROGRAM, $1.6 BILLION, TO SUPPORT OUR INTERESTS IN EUROPE. THE STRATEGIC IMPORTANCE TO NATO OF EUROPE'S SOUTHERN FLANK HAS BEEN DRAMATICALLY UNDERSCORED BY EVENTS THIS PAST YEAR. WITH NEIGHBORING REGIONS FACING A GROWING CHALLENGE, OUR EFFORTS TO ASSIST GREECE, TURKEY, SPAIN, AND PORTUGAL HAVE ASSUMED INCREASING IMPORTANCE. HELPING THESE NATIONS, THROUGH OUR SECURITY ASSISTANCE PROGRAMS, IS AN IMPORTANT CONTRIBUTION TO OUR COMMON DEFENSE, NOT ONLY AGAINST THREATS TO EUROPE BUT AGAINST CHALLENGES TO OUR COMMON INTERESTS BEYOND THE GEOGRAPHIC BOUNDS OF THE ALLIANCE. TURKEY, FOR EXAMPLE, LIES AT THE INTERSECTION OF OUR NATO, MIDDLE EAST, AND PERSIAN GULF SECURITY CONCERNS. A MILITARILY AND ECONOMICALLY STRONGER TURKEY CAN NOT ONLY CONTRIBUTE SIGNIFICANTLY MORE TO A STRENGTHENED NATO DETERRENT, BUT CAN MOVE MORE RAPIDLY TO THE FULL RETURN OF CIVILIAN GOVERNMENT. SPAIN AND PORTUGAL, THE OTHER MAJOR SECURITY ASSISTANCE RECIPIENTS, ARE SIMILARLY IMPORTANT TO OUR NATO POSTURE AND TO OUR CAPABILITIES TO PROJECT MILITARY FORCES FROM THE UNITED STATES TO AFRICA AND THE MIDDLE EAST.

TEN PERCENT OF THE FY 1983 SECURITY ASSISTANCE PROGRAM IS DIRECTED SPECIFICALLY TO ENSURING OUR CONTINUED ACCESS TO SOUTHWEST ASIA AND THE PERSIAN GULF, AND TO THEIR CRITICALLY IMPORTANT RESOURCES, ALTHOUGH OF COURSE OUR SOUTHERN EUROPEAN AND OTHER MIDDLE EASTERN ALLIES ALSO PLAY AN IMPORTANT ROLE IN THIS RESPECT.

ALMOST ALL NATIONS IN THE AREA STRETCHING FROM PAKISTAN IN THE EAST TO MOROCCO IN THE WEST FACE SERIOUS ECONOMIC PROBLEMS AND POTENTIAL OR ACTUAL SUBVERSION AS WELL AS

DIRECT REGIONAL MILITARY THREATS, IN MANY CASES SUPPORTED BY THE SOVIETS OR THEIR PROXIES. OUR PROPOSAL FOR MILITARY MODERNIZATION AND ECONOMIC ASSISTANCE WILL HELP PAKISTAN TO MEET THE SOVIET THREAT FROM AFGHANISTAN AND FACILITATE THE ECONOMIC DEVELOPMENT ESSENTIAL TO INTERNAL STABILITY. SUDAN, MOROCCO AND TUNISIA ALL FACE, TO ONE DEGREE OR ANOTHER, THREATS OF SUBVERSION OR AGGRESSION EMANATING FROM LIBYA. ALL ARE IMPORTANT NOT ONLY TO OUR STRATEGY FOR THE SECURITY OF THE PERSIAN GULF, BUT, POTENTIALLY, TO THE PROSPECTS FOR PEACE IN THE MIDDLE EAST AS WELL.

TO HELP ASSURE STABILITY AND ACCESS IN THE INDIAN OCEAN AND PERSIAN GULF AREA, WE MUST PROVIDE ECONOMIC AND MILITARY ASSISTANCE TO KENYA, SOMALIA, DJIBOUTI, MAURITIUS AND THE SEYCHELLES. MOST OF THESE NATIONS ARE EXPERIENCING SEVERE ECONOMIC DIFFICULTIES, AND SEVERAL FACE SERIOUS THREATS FROM ETHIOPIA OR SOUTH YEMEN.

BOTH KENYA AND SOMALIA REQUIRE HELP IN ACHIEVING ECONOMIC SELF-RELIANCE AND IMPROVED DEFENSE CAPABILITIES. IN TURN, BOTH NATIONS PROVIDE U.S. FORCES WITH ACCESS TO FACILITIES, THUS CONTRIBUTING SIGNIFICANTLY TO OUR ABILITY TO SUSTAIN A CREDIBLE DETERRENT POSTURE IN THE REGION.

OUR PLAN FOR RESTORING STABILITY AND IMPROVING ECONOMIC PROSPECTS IN THE CARIBBEAN BASIN WILL REQUIRE $433 MILLION IN SECURITY ASSISTANCE FOR 1983. HERE WE FACE A MAJOR CHALLENGE FROM CUBA'S EFFORTS (AGAIN WITH SOVIET FINANCING AND SUPPORT) TO EXPLOIT ECONOMIC, SOCIAL AND MILITARY VULNERABILITIES. OUR ASSISTANCE PROGRAMS ARE DESIGNED TO ADDRESS THE UNDERLYING CAUSES OF SOCIO-POLITICAL INSTABILITY AND RESTORE STABILITY WITHIN THE REGION AS A WHOLE. WE MUST HELP PROVIDE THE CONCESSIONAL RESOURCES ESSENTIAL TO THE TASK UNTIL INCREASED INVESTMENT, A STRENGTHENED PRIVATE SECTOR, AND EXPANDED EXPORT MARKETS ENABLE THESE COUNTRIES TO ACHIEVE SELF-SUSTAINING ECONOMIC GROWTH.

OF THIS AMOUNT, EL SALVADOR WILL NEED $166 MILLION IN ECONOMIC SUPPORT FUND AND MILITARY ASSISTANCE TO THWART THE OUTRIGHT DRIVE BY INSURGENTS TO DESTROY THE ECONOMY AND PUBLIC ORDER. JAMAICA WILL CONTINUE TO NEED SUBSTANTIAL ASSISTANCE IN ORDER TO RESTORE THE VITALITY OF ITS SHATTERED PRIVATE SECTOR. COSTA RICA'S RAPIDLY DETERIORATING ECONOMY WILL REQUIRE SUBSTANTIAL ASSISTANCE WHILE FUNDAMENTAL REFORMS ARE EFFECTED. HONDURAS FACES AN ECONOMIC DECLINE AND A POLITICAL-MILITARY CRISIS ON ITS BORDERS. DETERIORATING

CONDITIONS IN OTHER COUNTRIES IN THE REGION MAY WELL REQUIRE EMERGENCY ASSISTANCE DURING THE YEAR, HENCE THE CRITICAL IMPORTANCE OF AT LEAST THE MODEST CONTINGENCY FUNDS WE ARE PROPOSING. I SHOULD LIKE TO NOTE THAT THE AMOUNTS ALLOCATED FOR MILITARY ASSISTANCE REPRESENT JUST 16 PERCENT OF OUR TOTAL PROGRAM FOR THE CARIBBEAN BASIN.

REQUESTS IN SUPPORT OF OUR IMPORTANT PACIFIC INTERESTS REPRESENT A MODEST FRACTION, ONLY 6 PERCENT, BUT NEVERTHELESS A VITAL PART, OF OUR FY 1983 SECURITY ASSISTANCE PROGRAM. THIS REGION IS OF MAJOR POLITICAL, STRATEGIC, AND ECONOMIC IMPORTANCE TO THE UNITED STATES. WE HAVE SIGNIFICANT TREATY RELATIONSHIPS WITH JAPAN, KOREA, THE PHILIPPINES, THAILAND AND OUR ANZUS PARTNERS. WE ALSO HAVE A GROWING ECONOMIC AND COMMERCIAL STAKE IN THE AREA, WITH PETROLEUM BOTH ORIGINATING IN AND PASSING THROUGH THE REGION. U.S. TRADE WITH THE AREA NOW SURPASSES THAT WITH WESTERN EUROPE.

THE PHILIPPINES, INDONESIA AND MALAYSIA ARE LOCATED ASTRIDE STRATEGIC SEA LANES THAT ARE VITAL TO UNITED STATES AND WESTERN INTERESTS. INDONESIA IS AN IMPORTANT SOURCE OF PETROLEUM. THE PHILIPPINES PROVIDE THE UNITED STATES WITH ESSENTIAL MILITARY FACILITIES. OUR SECURITY AND ECONOMIC ASSISTANCE CONTRIBUTES TO THE STABILITY OF THESE NATIONS, THEIR ECONOMIC PROGRESS AND POLITICAL DEVELOPMENT, AND TO OUR OWN DEFENSE AND ECONOMIC WELL-BEING.

IN NORTHEAST ASIA, A STRONG AND ECONOMICALLY VITAL SOUTH KOREA IS ESSENTIAL TO DETER ITS NORTHERN NEIGHBOR FROM MILITARY ADVENTURES. A SOVIET-SUPPORTED 200,000-MAN VIETNAMESE ARMY REMAINS IN KAMPUCHEA AND THREATENS THAILAND'S SECURITY.

THE IMPORTANCE OF OUR INTERESTS IN THE WESTERN PACIFIC IS BEYOND DISPUTE, AND THE ONLY REASON OUR PROPOSAL IS NOT LARGER, IS THAT OUR PARTNERS IN THE FAR EAST ARE SOMEWHAT BETTER OFF ECONOMICALLY AND IN SECURITY TERMS THAN ARE MANY OF OUR FRIENDS AND ALLIES ELSEWHERE.

OUR PROPOSED $177 MILLION SECURITY ASSISTANCE PROGRAM FOR SOUTHERN AFRICA IS DESIGNED TO ADVANCE THE PEACEFUL ESTABLISHMENT OF AN INDEPENDENT NAMIBIA, TO HELP ENSURE CONTINUED WESTERN ACCESS TO KEY STRATEGIC MINERALS, AND TO SUPPORT THE DEVELOPMENT PROCESS FROM ZAIRE TO THE CAPE. WE MUST FULFILL OUR UNDERTAKING TO ASSIST THE ECONOMIC DEVELOPMENT OF THE FRONTLINE STATES OF SOUTHERN AFRICA, WHOSE PARTICIPATION IS ESSENTIAL TO THE STABILITY OF A REGION RICH IN MINERALS ESSENTIAL TO OUR ECONOMIC WELL-BEING. THE ALTERNATIVE, A NEW ESCALATION OF CONFLICT, WOULD ONLY

PROVIDE IRRESISTIBLE OPPORTUNITIES FOR THE CUBANS AND SOVIETS.

IN WEST AFRICA, MODEST LEVELS OF SECURITY ASSISTANCE ARE ESSENTIAL TO MAINTAIN ECONOMIC AND POLITICAL RESILIENCE AND TO DISCOURAGE FURTHER LIBYAN ATTEMPTS TO EXPLOIT THE FINANCIAL DIFFICULTIES FACED BY SEVERAL NATIONS. IN ADDITION, OUR AID TO LIBERIA IS DESIGNED TO ENSURE CONTINUED U.S. ACCESS TO KEY TRANSPORTATION AND COMMUNICATIONS FACILITIES.

IN SUM, THE PRESIDENT IS REQUESTING AND IS COMMITTED TO DEFENDING A TOTAL $8.7 BILLION SECURITY ASSISTANCE PROGRAM FOR FISCAL YEAR 1983. ONLY $4.8 BILLION REQUIRES BUDGET AUTHORITY; $3.9 BILLION IS IN THE FORM OF OFF-BUDGET FMS GUARANTEES, BUT REQUIRES YOUR APPROVAL. THE FOREIGN POLICY OBJECTIVES I HAVE JUST OUTLINED ARE THOSE WE STRIVE TO ATTAIN WITH THOSE RESOURCES. THE PRESIDENT'S PROGRAM HAS, AS NEVER BEFORE, BEEN CAREFULLY STRUCTURED TO ADDRESS ONLY OUR MOST CRITICAL NEEDS. NEARLY 90 PERCENT OF THE ENTIRE FISCAL YEAR 1983 FMS GUARANTEE PROGRAM IS ALLOCATED TO ONLY SEVEN COUNTRIES: EGYPT, GREECE, ISRAEL, KOREA, PAKISTAN, SPAIN, AND TURKEY. NEARLY 80 PERCENT OF THE FY 1983 ESF PROGRAM IS FOR SIX VITAL COUNTRIES: EGYPT, EL SALVADOR, ISRAEL, PAKISTAN, SUDAN, AND TURKEY. ALMOST 80 PERCENT OF THE FMS DIRECT CREDIT PROGRAM WILL GO TO ISRAEL, EGYPT, PORTUGAL, SUDAN AND TURKEY.

WE AGAIN SEEK AUTHORITY TO PROVIDE CONCESSIONAL ASSISTANCE TO KEY COUNTRIES IN ORDER TO MAKE IT POSSIBLE FOR THEM TO PURCHASE DEFENSE EQUIPMENT AND SERVICES THAT WE BELIEVE IT IS IN OUR INTERESTS FOR THEM TO HAVE. WE ARE ASKING THIS BECAUSE WE BELIEVE THAT CONCESSIONAL RATES PROVIDE US WITH MAXIMUM FLEXIBILITY IN MEETING THE SPECIFIC NEEDS OF SECURITY ASSISTANCE RECIPIENTS. OVER THE LONG-TERM, THEY ALSO LOWER THE NET COST TO THE U.S. TAXPAYER. THE TWO ADVERSE TRENDS OF INCREASING DEBT BURDENS AMONG RECIPIENT COUNTRIES AND HIGH FFB INTEREST RATES HAVE CREATED A SITUATION IN WHICH MANY COUNTRIES WITH PARTICULARLY WEAK ECONOMIES ARE FACING SERIOUS DIFFICULTIES IN FINANCING THEIR PURCHASES THROUGH FMS GUARANTEED LOANS. UNDER OUR PROPOSAL, WE WILL PLAN TO OFFER $950 MILLION IN THE FORM OF FORGIVEN CREDITS TO THREE COUNTRIES ONLY -- $500 MILLION FOR ISRAEL, $400 MILLION FOR EGYPT AND $50 MILLION FOR SUDAN. IN ADDITION, WE PROPOSE TO FURNISH $789 MILLION OF CONCESSIONAL CREDITS TO 19 POORER COUNTRIES (INCLUDING AN ADDED $50 MILLION FOR SUDAN) AT A RATE OF INTEREST AS LOW AS THREE PERCENT. THE COUNTRIES

SELECTED ARE THOSE FACING PARTICULARLY DIFFICULT ECONOMIC SITUATIONS AND IN WHICH WE HAVE IMPORTANT SECURITY AND FOREIGN POLICY INTERESTS. FOR EXAMPLE, WE ARE PLANNING TO PROVIDE $300 MILLION AT CONCESSIONAL RATES TO TURKEY FOR ITS MILITARY MODERNIZATION PROGRAM SO CRITICAL TO OUR NATO POSTURE. SEVENTY PERCENT OF THE REMAINING $489 MILLION WOULD GO TO BUT SIX COUNTRIES: THAILAND, TUNISIA, SUDAN, MOROCCO, PORTUGAL, AND EL SALVADOR.

MR. CHAIRMAN, COMMITTEE MEMBERS, THE PROGRAMS WE ARE SUBMITTING HAVE BEEN CAREFULLY WEIGHED, DEBATED AND MADE TO ANSWER THE QUESTION, "IS THE NEED CRITICAL?" WE HAVE HAD TO MAKE DIFFICULT DECISIONS AND TRADEOFFS. BUT WE HAVE CONCLUDED THAT THERE IS SIMPLY NO ALTERNATIVE BUT TO SEEK THESE ADDITIONAL RESOURCES IF WE ARE TO SUPPORT OUR WORLDWIDE INTERESTS. WITHOUT THE INCREASES OVER THE LEVELS APPROPRIATED FOR THE CURRENT YEAR,

-- WE WOULD BE UNABLE TO PROVIDE SUFFICIENT FMS GUARANTEED FINANCING TO LAUNCH THE PAKISTAN PROGRAM WE DISCUSSED IN SUCH DETAIL LAST YEAR, INCREASE THE EGYPT AND ISRAEL PROGRAMS, OR SUPPORT OUR NEGOTIATIONS FOR THE SPANISH BASES.

-- WE WOULD BE UNABLE TO PROVIDE THE CONCESSIONAL CREDIT TERMS REQUIRED TO ENABLE EGYPT, SUDAN, TURKEY, THAILAND, MORROCCO, TUNISIA, EL SALVADOR AND PORTUGAL TO UPGRADE THEIR DEFENSES.

-- THE ESF LEVEL WOULD FALL FAR SHORT OF THE NEEDS OF TURKEY AND COUNTRIES IN THE CARIBBEAN BASIN.

I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO ADDRESS THE ADMINISTRATION'S FY 1982 MILITARY ASSISTANCE SUPPLEMENTAL REQUEST.

LAST FALL CONGRESS AUTHORIZED THE ABSOLUTE MINIMAL AMOUNT NEEDED FOR FY 82 SECURITY ASSISTANCE. DESPITE THIS COMMITTEE'S RECOMMENDATION, CONGRESS ULTIMATELY APPROPRIATED $301 MILLION LESS. AT THE APPROPRIATED LEVELS WE HAVE HAD TO MAKE DAMAGING CHOICES BETWEEN WHICH OF OUR FOREIGN POLICY OBJECTIVES TO SUPPORT ADEQUATELY AND WHICH TO NEGLECT. OUR REQUEST WOULD RESTORE THE AMOUNTS APPROPRIATED FOR FY 82 TO THE AUTHORIZED LEVELS.

THE SUPPLEMENTAL REQUESTS $115.5 MILLION IN BUDGET AUTHORITY AS FOLLOWS:

-- MAP - $62 MILLION;

-- FMS CREDITS - $50 MILLION;

-- IMET - $3.5 MILLION.

THE SUPPLEMENTAL ALSO REQUESTS AN ADDITIONAL $186 MILLION IN OFF-BUDGET FMS LOAN GUARANTEES.

THIS SUPPLEMENTAL REQUEST WOULD PROVIDE URGENTLY NEEDED FUNDS TO SUPPORT CRITICAL AMERICAN INTERESTS IN FOUR STRATEGIC AREAS:

-- GATEWAY TO THE MEDITERRANEAN: NATO'S SOUTHWESTERN FLANK AND ACCESS REGION FOR THE MIDDLE EAST. AN EFFECTIVE PRESENCE IN THE MIDDLE EAST REQUIRES THAT OUR 6TH FLEET AND OUR RAPID DEPLOYMENT FORCES HAVE ASSURED ACCESS TO BASES ENROUTE. THE SUPPLEMENTAL INCREASES OFF-BUDGET FMS GUARANTEES TO SPAIN ($25 MILLION), PORTUGAL ($20 MILLION), TUNISIA ($10 MILLION) AND MOROCCO ($20 MILLION), WHICH STRADDLE THE GATEWAY TO THE REGION. ADEQUATE AID TO SPAIN IS CRITICAL TO THE SUCCESS OF OUR BASE NEGOTIATIONS. SIMILAR NEGOTIATIONS WILL SOON START WITH PORTUGAL.

-- SOUTHEASTERN EUROPE AND THE HORN OF AFRICA: THE SUPPLEMENTAL WOULD ADD OFF-BUDGET FMS GUARANTEES FOR TURKEY ($82 MILLION) AND PROVIDE GRANTS TO SOMALIA ($10 MILLION) AND SUDAN ($25 MILLION). TURKEY, SOMALIA AND SUDAN BRACKET THE MIDDLE EAST. TURKEY AND SOMALIA OFFER US ACCESS TO CRITICAL FACILITIES, AND SUDAN'S TERRITORIAL INTEGRITY IS CRITICAL TO STABILITY IN THE MIDDLE EAST. BOTH SOMALIA

AND SUDAN ARE PRIME TARGETS OF THE RECENT ALLIANCE BETWEEN SOUTH YEMEN, ETHIOPIA AND LIBYA, WHICH SUPPORTS SUBVERSIVE GROUPS IN SOMALIA AND SENDS SUBVERSIVES INTO SUDAN. THE SUPPLEMENTAL WOULD HELP MODERNIZE TURKEY'S FORCES, ACCELERATE DELIVERY OF RADAR AND TRANSPORTATION EQUIPMENT TO SOMALIA, AND PROVIDE SUDAN WITH MODEST NUMBERS OF TANKS, ARTILLERY, AIRCRAFT AND IMPROVED AIR DEFENSE SYSTEMS.

-- CENTRAL AMERICA: CUBA AND NICARAGUA HAVE COUPLED AN UNPRECEDENTED MILITARY BUILDUP WITH INCREASED SUPPORT FOR SUBVERSIVE GROUPS. THE SUPPLEMENTAL FULFILLS THE PRESIDENT'S PLEDGE TO COMPLEMENT THE CARIBBEAN BASIN INITIATIVE WITH ADEQUATE MILITARY ASSISTANCE GRANTS TO EL SALVADOR ($35 MILLION) AND HONDURAS ($17 MILLION). THE SUPPLEMENTAL WILL ENABLE EL SALVADOR'S NEWLY-ELECTED GOVERNMENT TO TRAIN ADDITIONAL FORCES FOR RAPID DEPLOYMENT AND OBTAIN NAVAL PATROL VESSELS, GROUND SUPPORT FOR AIRCRAFT, AND COMMUNICATIONS EQUIPMENT ESSENTIAL FOR A SUCCESSFUL AND CONTROLLED ANTI-GUERRILLA CAMPAIGN. THE SUPPLEMENTAL WILL PERMIT HONDURAS' NEW DEMOCRATIC GOVERNMENT TO PURCHASE TRANSPORT, NAVAL PATROL AND GROUND SUPPORT AIRCRAFT, ARMS AND AMMUNITION, AND COMMUNICATIONS EQUIPMENT NEEDED TO COUNTER INSURGENT MOVEMENTS.

-- FAR EAST: DESPITE NORTH KOREA'S CONTINUING MILITARY ADVANTAGE, WE HAVE CONSISTENTLY CUT APPROPRIATIONS TO SOUTH KOREA BELOW OUR INITIAL PLANNING LEVELS. IN SOUTHEAST ASIA, VIETNAMESE RUTHLESSNESS, AMPLY DEMONSTRATED BY THE USE OF CHEMICAL WARFARE IN CAMBODIA AND LAOS, THREATENS THAILAND. THE SUPPLEMENTAL PROVIDES OFF-BUDGET GUARANTEES TO HELP SOUTH KOREA ($29 MILLION) AND THAILAND ($25 MILLION) MODERNIZE THEIR FORCES.

IN CONCLUSION, I ASSURE YOU, GENTLEMEN, THAT IN THIS MOST DIFFICULT YEAR THE PRESIDENT WOULD NOT ASK FOR ADDITIONAL SECURITY ASSISTANCE IF HE AND WE WERE NOT ABSOLUTELY CONVINCED THAT THESE RESOURCES ARE ESSENTIAL TO THE PROSPECTS FOR PEACE AND FOR THE DEFENSE OF ESSENTIAL AMERICAN INTERESTS AROUND THE GLOBE. WITHOUT THEM, THE PRESIDENT WOULD BE FORCED TO DECIDE WHICH OBJECTIVES OF OUR FOREIGN POLICY TO PURSUE AND WHICH TO ABANDON OR NEGLECT. FOR EXAMPLE, HE WOULD BE FORCED TO FACE SUCH DAMAGING CHOICES AS SCALING BACK OUR SPANISH BASES IN ORDER TO FINANCE OUR CARIBBEAN INITIATIVE, OR OF SHIFTING RESOURCES AWAY FROM TURKEY TO ADDRESS OUR NEEDS IN SUDAN, KENYA AND SOMALIA, OR ABANDONING OUR UNDERTAKINGS AND INITIATIVES IN

SUCH IMPORTANT AREAS AS SOUTHERN AFRICA AND SOUTHEAST ASIA IN ORDER TO MEET OUR COMMITMENTS IN THE MIDDLE EAST.

UNLESS WE ARE WILLING TO MAKE THESE INVESTMENTS FOR PEACE AND SECURITY TODAY, WE RISK FAR GREATER COSTS TO BOTH OUR SAFETY AND NATIONAL TREASURE TOMORROW.

## Prepared Statement of Dr. Henry H. Gaffney

DIRECTOR FOR PLANS, DEFENSE SECURITY ASSISTANCE AGENCY

THANK YOU MR. CHAIRMAN.

MY REMARKS TODAY WILL BE BRIEF. SECRETARY BUCKLEY HAS JUST PROVIDED THIS COMMITTEE WITH A DETAILED STATEMENT ON THE PRESIDENT'S FY 1983 SECURITY ASSISTANCE PROPOSAL. HE ALSO DESCRIBED THE CRITICAL ROLE SECURITY ASSISTANCE PLAYS IN THE SUCCESSFUL CONDUCT OF OUR FOREIGN POLICY AND IN THE FULFILLMENT OF OUR OVERSEAS DEFENSE MISSION. NEEDLESS TO SAY, WE IN DEFENSE STRONGLY AGREE THAT THE SECURITY ASSISTANCE PROGRAM IS, AND ALWAYS HAS BEEN, AN INDISPENSABLE INSTRUMENT FOR PROMOTING, PRESERVING AND PROTECTING OUR INTERESTS AND THE INTERESTS OF FRIENDLY AND ALLIED NATIONS AROUND THE WORLD. I WILL CONFINE MY COMMENTS TO A NUMBER OF AREAS WHICH I BELIEVE TO BE OF PARTICULAR INTEREST TO THIS COMMITTEE.

BEFORE MAKING THESE COMMENTS, HOWEVER, I WOULD LIKE TO RE-EMPHASIZE, FOR THE COMMITTEE, THAT SECURITY ASSISTANCE, IN ITS MANY FORMS, HAS ALWAYS BEEN AT THE CUTTING EDGE OF OUR FOREIGN POLICY AND NATIONAL SECURITY STRATEGY. VIRTUALLY EVERY SIGNIFICANT INTERNATIONAL POLICY INITIATIVE OR ACTUAL ENGAGEMENT OF U.S. FORCES SINCE WORLD WAR II WAS EITHER INFLUENCED BY OR AFFECTED THE CONDUCT AND CONTENT OF U.S. MILITARY ASSISTANCE POLICY. IN THE IMMEDIATE POST-WAR PERIOD UP TO THE PRESENT TIME, U.S. SECURITY ASSISTANCE HAS BEEN IN THE FOREFRONT OF U.S. FOREIGN POLICY. GRANT AID SECURITY ASSISTANCE IN THE EARLY 1950'S, FOR EXAMPLE, WAS THE KEY INGREDIENT IN BUILDING UP THE MILITARY CAPABILITIES OF NATO AND IN HELPING TO DETER WAR IN

EUROPE OVER THE NEXT 30 YEARS. DURING THE YEARS OF THE KOREAN CONFLICT, EMERGENCY SECURITY ASSISTANCE ALLOWED THE BUILDING OF REPUBLIC OF KOREA ARMED FORCES WHICH TOGETHER WITH OUR CONTINUED COMMITMENT HAS DETERRED WAR IN NORTHEAST ASIA FOR THE PAST TWO DECADES. TODAY, AND TOMORROW, OUR SECURITY ASSISTANCE IS NEEDED TO HELP DETER CONFLICT IN OTHER PARTS OF THE WORLD WHERE CRITICAL U.S. INTERESTS ARE AT STAKE--IN THE VOLATILE MIDDLE EAST, IN SOUTHWEST ASIA, IN THE CARIBBEAN AND CENTRAL AMERICA SUB-REGIONS AND, IN FACT, IN VIRTUALLY EVERY REGION OF AN INCREASINGLY SMALLER AND INTERDEPENDENT WORLD. IN SHORT, MR. CHAIRMAN, I WANT TO STRESS THIS ELEMENTAL POINT--SECURITY ASSISTANCE IS NOT A GIVE-AWAY PROGRAM; IT IS NOT WITHOUT SPECIFIC AIMS; IT FULLY COMPLEMENTS THE U.S. DEFENSE PROGRAM AND BUDGET, IT CONTRIBUTES SIGNIFICANTLY TO OUR NATIONAL SECURITY AND REQUIRES A RELATIVELY SMALL COST TO THE AMERICAN TAXPAYER. WHEN COMPARED TO THE SUBSTANTIAL BENEFITS DERIVED FROM THE PROGRAM, THE COSTS OF SECURITY ASSISTANCE TODAY ARE VERY SMALL.

SECRETARY BUCKLEY SPOKE EARLIER OF THE PRESIDENT'S APPRECIATION FOR CONGRESSIONAL PASSAGE OF THE FY 82 FOREIGN ASSISTANCE BILL, THE FIRST IN SEVERAL YEARS INDICATING CONGRESSIONAL CONCERN WITH SECURITY ASSISTANCE. I WANT TO REINFORCE THAT JUDGEMENT. HOWEVER, OVERLOOKED IN THE ACT WAS THE SPECIAL DEFENSE ACQUISITION FUND (SDAF) WHICH WAS AUTHORIZED BY THE CONGRESS LAST YEAR BUT WITHOUT OBLIGATIONAL AUTHORITY. IT IS A HIGH PRIORITY THAT THE REMAINING OBSTACLES TO OBLIGATING THESE FUNDS BE REMOVED. THIS ACTION WOULD GIVE THE PRESIDENT THE FLEXIBILITY HE NEEDS TO RESPOND QUICKLY AND DECISIVELY TO UNFORESEEN INTERNATIONAL CIRCUMSTANCES WITHOUT NEGATIVELY EFFECTING THE COMBAT READINESS OF OUR OWN ARMED FORCES AND, IN ADDITION, WILL ALLOW US TO USE SECURITY ASSISTANCE PROCUREMENT TO INCREASE THE VIABILITY OF OUR DEFENSE INDUSTRIAL MOBILIZATION BASE.

UNFORTUNATELY, EVENTS DO NOT REMAIN STATIC AND THE SECURITY ASSISTANCE REQUIREMENTS OF OUR FRIENDS AND ALLIES DO NOT ALWAYS CONFORM TO OUR BUDGETARY CYCLES--OR TO OUR PROGRAM LEVELS. THE CHALLENGES WE FACE TODAY, THEREFORE, HAVE FORCED US TO REQUEST AN INCREASE TO THE FY 1982 SECURITY ASSISTANCE BUDGET. IF FUNDING LEVELS REMAIN CONSTANT IN FY 1983, WE WOULD NOT BE ABLE TO ADEQUATELY MEET IDENTIFIABLE GLOBAL AND REGIONAL REQUIREMENTS OR TO CARRY OUT COMMITMENTS WE HAVE MADE TO OTHER GOVERNMENTS. WE NEED TO CONTINUE TO ENHANCE THE PEACE PROCESS BETWEEN ISRAEL AND EGYPT, TO SECURE ACCESS TO FACILITIES IN THE INDIAN OCEAN/PERSIAN GULF AREA, TO ASSIST COUNTRIES TO COPE WITH INTERNAL OR CROSS-BORDER CONFLICTS--SUCH AS PAKISTAN, SUDAN, MOROCCO, EL SALVADOR, THAILAND AND HONDURAS--AND WE ALSO NEED TO PROVIDE ADEQUATE ASSISTANCE TO THOSE OTHER NATIONS WHO SHARE OUR

STRATEGIC AND SECURITY CONCERNS--COUNTRIES SUCH AS TURKEY AND PORTUGAL IN NATO, KOREA IN THE FAR EAST AND OTHER STRATEGICALLY POSITIONED COUNTRIES IN AFRICA AND THE MIDDLE EAST.

THE ADMINISTRATION'S FY 1983 REQUEST BUILDS UPON THE FY 1982 BASE BUT ADDS URGENT AND ONLY URGENT REQUIREMENTS TO IT.

THE LARGEST FMS CREDIT ADDITIONS ARE FOR MEETING THE NEW AND ESSENTIAL PROGRAM FOR PAKISTAN AND TO IMPROVE THE PROGRAMS IN ISRAEL EGYPT, AND SPAIN. WE ARE ALSO EXPANDING THE SMALLER PROGRAMS IN NORTH AFRICAN COUNTRIES WHICH FACE CRITICAL THREATS FROM SOVIET-SUPPORTED REGIMES AND ALSO PROVIDE FACILITIES EN ROUTE TO SOUTH WEST ASIA.

THE ADMINISTRATION'S REQUEST FOR $950 MILLION IN FORGIVEN CREDITS FOR ISRAEL, EGYPT, AND THE SUDAN AND $789 MILLION FOR THE CONCESSIONAL LOAN PROGRAM IS PARTICULARLY SIGNIFICANT. THE OTHER MAJOR RECIPIENT OF THE CONCESSIONAL LOAN PROGRAM IS TURKEY. LESSER SUMS ARE EARMARKED FOR THAILAND, MOROCCO, TUNISIA, KENYA AND EL SALVADOR. THESE SOFTER CREDITS WOULD BE PROVIDED TO OTHER COUNTRIES IN ALL REGIONS OF THE WORLD. WE BELIEVE THESE ADDITIONAL DIRECT CREDITS ARE ABSOLUTELY ESSENTIAL IF FINANCIALLY HARD-PRESSED COUNTRIES ARE TO MEET THEIR LEGITIMATE SECURITY REQUIREMENTS--MOST CANNOT AFFORD THE STIFF TERMS OF OUR GUARANTEED LOAN PROGRAM.

THE INCREASE IN IMET IS NECESSARY BECAUSE WE HAVE ADDED TEN COUNTRIES, AND BECAUSE WE WILL FEEL THE INCREASING COSTS OF INFLATION IN THIS PROGRAM. THE FY 83 REQUEST IS ALMOST $12 MILLION ABOVE THE FY 82 AUTHORIZATION LEVEL.

IN THE NEAR-TERM, THE PRESIDENT BELIEVES THAT PRESSING SECURITY PROBLEMS REQUIRE A QUICK AND DECISIVE RESPONSE, PARTICULARLY IN THE CENTRAL AMERICA AND THE CARIBBEAN SUB-REGIONS. AS YOU KNOW, THE PRESIDENT HAS ASKED FOR A $350 MILLION SUPPLEMENTAL APPROPRIATION FOR FY 1982 TO TACKLE THE CRIPPLING PROBLEMS OF ECONOMIC GROWTH AND POLITICAL VIOLENCE UNDER THE CARIBBEAN BASIN INITIATIVE. HE ALSO INDICATED HIS INTENTION TO SEEK ADDITIONAL MILITARY ASSISTANCE FOR REGIONAL STATES TO ENABLE THEM TO COPE WITH INTERNAL AND EXTERNALLY-SUPPORTED THREATS TO THEIR SECURITY.

SECRETARY BUCKLEY HAS DISCUSSED IN DETAIL THE ADMINISTRATION'S FY 1982 SUPPLEMENTAL REQUEST FOR MILITARY ASSISTANCE. I WOULD LIKE TO REINFORCE THE VIEW THAT WE WOULD BE COMPELLED TO SCALE DOWN MANY PRIORITY SECURITY OBJECTIVES IF SUPPLEMENTAL FUNDS ARE NOT APPROPRIATED IN FY 1982. WE ARE SUBMITTING THIS UNUSUAL REQUEST BECAUSE ACTION IS REQUIRED NOW AND THE SOONER WE ACT, THE SOONER

OUR ACTIONS WILL HAVE THE INTENDED IMPACT OF PROVIDING NEEDED SUPPORT FOR OUR FRIENDS AND ALLIES AND IMPROVING OUR OVERALL DEFENSE GOALS, SUCH AS REGIONAL STRATEGY IMPLEMENTATION.

THE SUPPLEMENTAL REQUESTS A TOTAL OF $301 MILLION WHICH IS THE DIFFERENCE BETWEEN WHAT THE CONGRESS AUTHORIZED AND WHAT IT APPROPRIATED IN THE FY 1982 BILL. LESS THAN 40% OF THIS REQUEST, OR $115.5M, IS FOR ON-BUDGET FUNDS--$62M FOR MAP, $50M FOR FMS CREDITS AND $3.5M FOR IMET; THE REMAINING PROTION IS FOR $186M IN OFF-BUDGET FMS GUARANTEED LOANS.

THE FUNDS WOLD BE UTILIZED TO ENSURE AND ENHANCE OUR EN ROUTE ACCESS TO THE MIDDLE EAST AND SOUTHWEST ASIA BY PROVIDING FMS GUARANTEED LOANS TO SPAIN ($25M) AND PORTUGAL ($20M) IN EUROPE AND TO MOROCCO ($20M) AND TUNISIA ($10M) IN NORTH AFRICA. ALONG THE PERIMETER OF THE MIDDLE EAST, WE ARE RECOMMENDING GUARANTEED FMS CREDITS FOR TURKEY ($82M) WHICH FACES STAGGERING MODERNIZATION REQUIREMENTS AND GRANTS TO SOMALIA ($10M) AND THE SUDAN ($25M) BOTH OF WHICH FACE SERIOUS AND CONTINUOUS THREATS TO THEIR SECURITY. ALL THREE COUNTRIES ARE STRATEGICALLY LOCATED AND ALL THREE ARE IN DESPARATE NEED OF ADDITIONAL SECURITY ASSISTANCE RESOURCES.

OTHER FMS GUARANTEED CREDITS ARE PLANNED FOR THAILAND ($25M) AND SOUTH KOREA ($29M) IN EAST ASIA TO IMPROVE THE ABILITY OF THAI ARMED FORCES TO RESIST THE SPILL-OVER FROM THE KAMPUCHEAN CIVIL WAR AND TO ENABLE SOUTH KOREA TO MAINTAIN A CREDIBLE MILITARY BALANCE ON THE KOREAN PENINSULA.

IN CENTRAL AMERICA, WE ARE ASKING FOR GRANT MILITARY ASSISTANCE TO EL SALVADOR ($35M) AND HONDURAS ($17M), THE TWO KEY COUNTRIES IN THE EYE OF THE POLITICAL AND MILITARY STORM IN THAT HIGHLY VOLATILE AND HIGHLY IMPORTANT REGION.

EACH OF THESE REQUESTS IS BEING MADE TO MEET REAL AND PRESSING NEEDS AND WE RISK LOSING THE ADVANTAGE WE CAN DERIVE FROM THESE COMPARATIVELY LIMITED RESOURCES IF WE FAIL TO TAKE CONCRETE AND DECISIVE STEPS IN FY 1982.

MR. CHAIRMAN, WE ARE PAINFULLY AWARE THAT OUR REQUEST COMES AT A TIME WHEN THERE ARE MANY COMPETING NATIONAL PRIORITIES AND A NEED FOR ADDITIONAL BELT TIGHTENING AT HOME. I CAN ONLY SAY THAT IN MY OPINION FAILURE TO BE RESPONSIVE IN THE PRESENT TIME FRAME WILL VERY POSSIBLY REQUIRE GREATER SACRIFICE IN THE FORM OF BUDGET OUTLAYS AND AN INCREASED PROBABILITY OF REQUIRED U.S. PARTICIPATION IN CONFLICTS IN THE FUTURE. THE INCREASES WE ARE ASKING FOR ARE SUBSTANTIAL IF COMPARED TO MOST OTHER PROGRAM

AREAS, BUT IT MUST BE REMEMBERED THAT THE PROPOSED INCREASE WOULD COME ON TOP OF A VERY SMALL FUNDING BASE.

I HAVE APPENDED SEVERAL GRAPHICS TO MY STATEMENT SHOWING A STEADY EROSION OF THE SECURITY ASSISTANCE PROGRAM OVER THE PAST THREE DECADES. THE SECURITY ASSISTANCE GRANT ELEMENT PEAKED IN 1952 BUT BY 1981 DROPPED TO ABOUT ONE-TWENTIETH THE 1952 LEVELS IF MEASURED IN CONSTANT DOLLAR TERMS. THE PORTION OF TODAY'S SECURITY ASSISTANCE THAT IS FUNDED BY THE AMERICAN TAXPAYER AND TREASURY BORROWING IS ONLY ABOUT A QUARTER OF WHAT WE PAID TO RE-ARM OUR ALLIES IN WESTERN EUROPE IN THE EARLY 1950'S. THEN, AS NOW, WE WERE RESPONDING TO THE THREAT POSED BY THE SOVIET UNION--AS INDICATED BY THE INCREASED ADVENTURISM OF THE SOVIETS AND THEIR PROXIES IN ANGOLA, ETHIOPIA, AFGHANISTAN, NICARAGUA, EL SALVADOR, CAMBODIA AND LAOS. TODAY THE THREAT EMANATING FROM THIS ADVENTURISM IS GREATER AND MORE GLOBAL THAN EVER. DURING THIS PERIOD, THERE HAS BEEN A GRADUAL IMPROVEMENT IN THE ECONOMIC QUALITY OF LIFE FOR THE AMERICAN PEOPLE AND LITTLE REAL CHANGE IN THE PER CAPITA BURDEN OF SUPPORTING THE DEFENSE BUDGET. YET, BY THE EARLY 1980'S THE COST TO THE TAXPAYER FOR THE SECURITY ASSISTANCE PROGRAM, IN REAL TERMS, IS AT ITS LOWEST LEVEL IN THIRTY YEARS. HISTORICALLY, THEN, MR. CHAIRMAN, THE SIZE OF OUR PROPOSED INCREASE IN THE FY 1983 SECURITY ASSISTANCE REQUEST IS DUE NOT ONLY TO REAL SECURITY REQUIREMENTS OVERSEAS BUT ALSO TO THE LONG-OVERDUE EFFORT TO REVERSE THE STEADY EROSION IN THE PROGRAM OVER THE YEARS.

I MIGHT ADD THAT DURING THE PAST DECADE, THE SOVIET UNION LAUNCHED A SUCCESSFUL DRIVE TO EXPAND THE SCOPE AND ATTRACTIVENESS OF ITS SECURITY ASSISTANCE PROGRAM. MEASURED IN WEAPONS TRANSFERRED, THE SOVIET PROGRAM FAR SURPASSES OURS. FOR EXAMPLE, BETWEEN 1978 AND MID-1981:

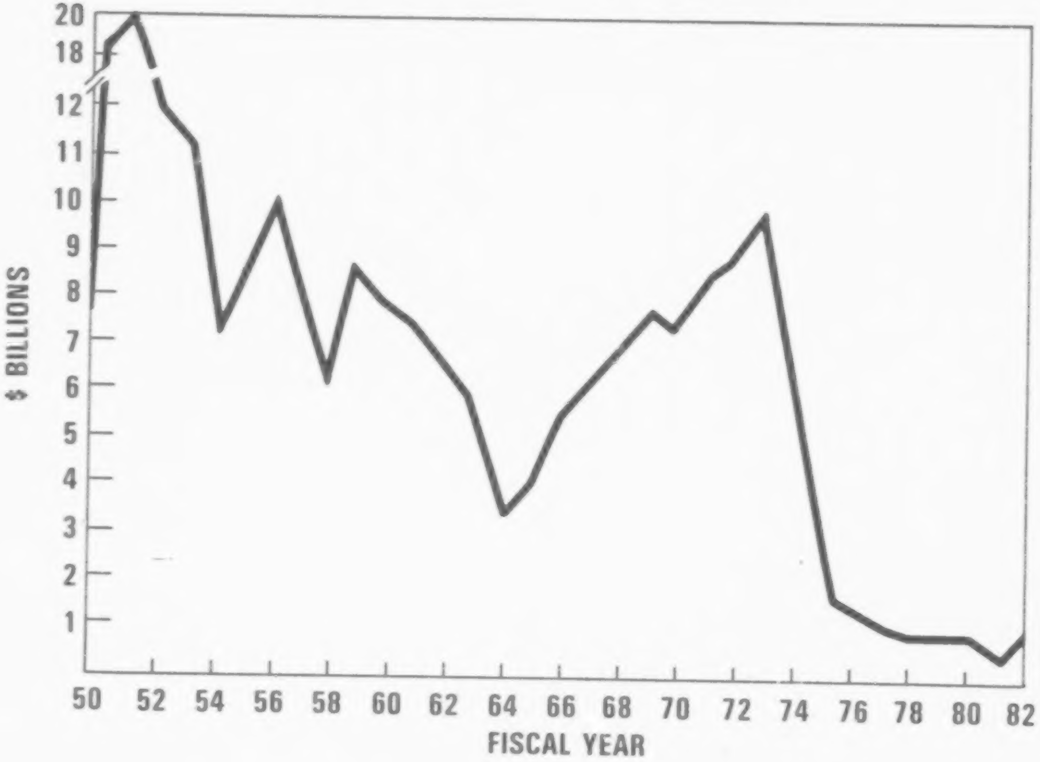
| | USSR | US |
|---|---|---|
| - TANKS AND SP GUNS | 5,031 | 2,388 |
| - COMBAT AIRCRAFT | 1,792 | 616 |
| - ARTILLERY | 5,594 | 2,733 |

IT IS IMPORTANT TO NOTE THAT SOVIET MILITARY AID CONSISTS OF ABOUT 75% LETHAL EQUIPMENT WHILE, IN FY 81, OURS RAN AT LESS THAN THIRTY PERCENT. THEIR ASSISTANCE TO CUBA, LIBYA AND OTHER SOVIET-CLIENT STATES DISRUPTS STABILITY AND HEIGHTENS OUR NEED TO BE RESPONSIVE TO FRIENDLY NATIONS THREATENED BY THIS SOVIET MILITARY SUPPLY LINE.

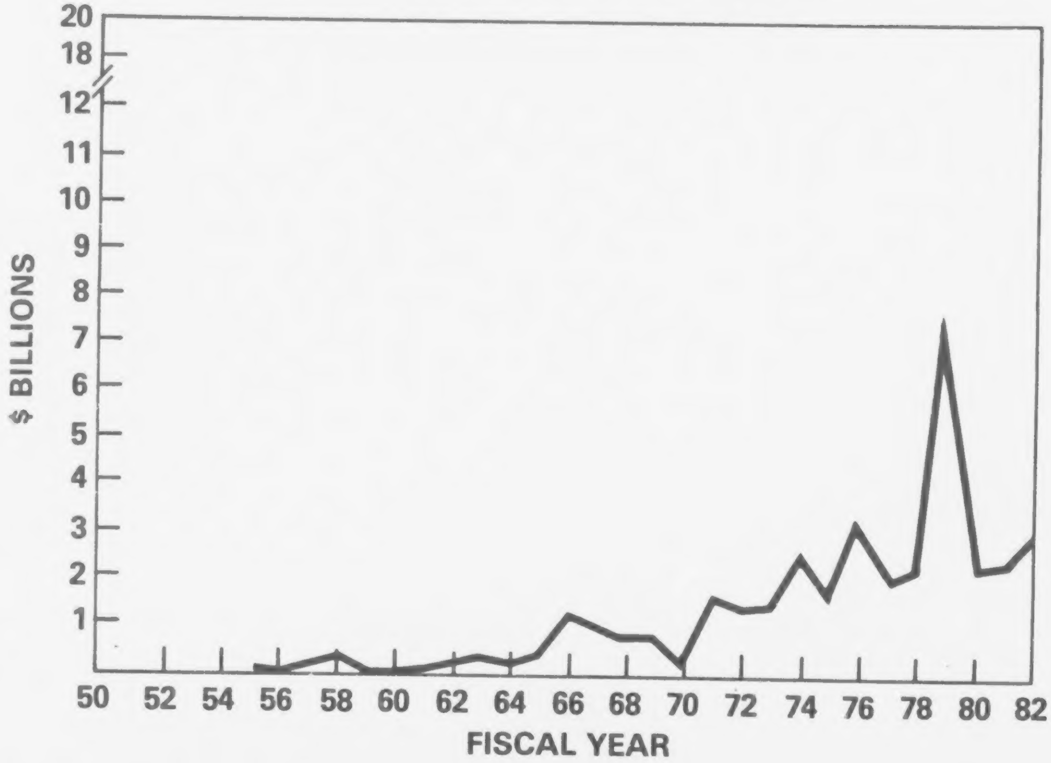
IN CONCLUSION, I WANT TO RETURN TO THE THEME HIGHLIGHTED BY SECRETARY BUCKLEY AND AT THE BEGINNING OF MY STATEMENT. SECURITY ASSISTANCE IS A COMPLEMENT TO OUR DEFENSE BUDGET AND, WHEN ADEQUATELY FUNDED AND FULLY-MANNED, DIRECTLY CONTRIBUTES TO THE SUCCESSFUL IMPLEMENTATION OF OUR DEFENSE POLICY. THERE WAS THE CLOSEST COLLABORATION POSSIBLE BETWEEN THE DEPARTMENT OF STATE AND DEPARTMENT OF DEFENSE IN DEVELOPING THE RECOMMENDATIONS FOR THE PROPOSED FY 1983 SECURITY ASSISTANCE AMENDMENT. I KNOW THAT I REFLECT THE VIEWS OF THE SECRETARY OF DEFENSE WHEN I URGE THE COMMITTEE TO GIVE FAVORABLE CONSIDERATION TO THE ADMINISTRATION'S SECURITY ASSISTANCE PROPOSALS. SECURITY ASSISTANCE IS A GOOD INVESTMENT FOR THE UNITED STATES--AN INVESTMENT IN IMPROVED SECURITY, AN INVESTMENT IN THE U.S. ECONOMY, AND AN INVESTMENT IN THE IMPROVEMENT OF OUR FOREIGN POLICY AND DEFENSE POSTURE.

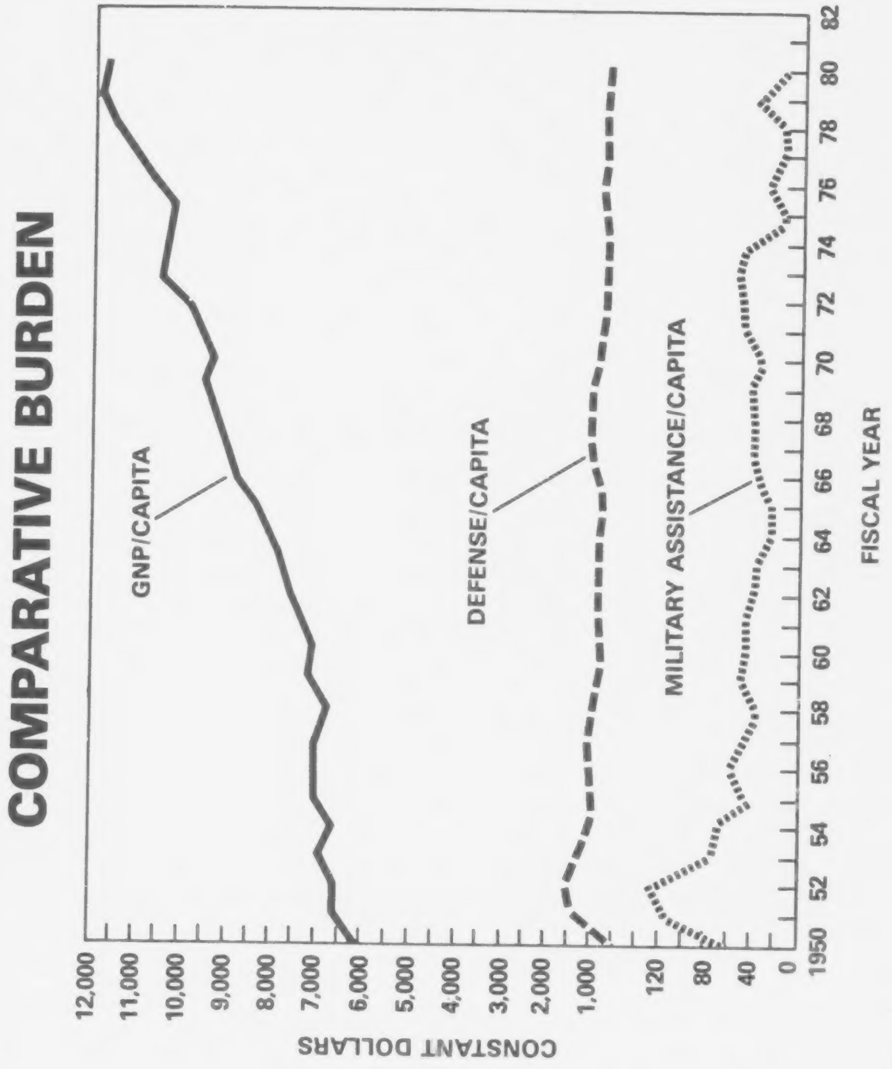
THAT CONCLUDES MY REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS. THANK YOU.

## GRANT PROGRAM
### (CONSTANT FY 82 $: BILLIONS)



## FMS CREDIT PROGRAM
### (CONSTANT FY 82 $: BILLIONS)




COMPARATIVE BURDEN
GNP/CAPITA
DEFENSE/CAPITA
MILITARY ASSISTANCE/CAPITA
CONSTANT DOLLARS
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
120
80
40
0
1950
52
54
56
58
60
62
64
66
68
70
72
74
76
78
80
82
FISCAL YEAR

## SPECIAL DEFENSE ACQUISITION FUND

Senator **KASTEN**. Thank you.

The first question I have deals with the Special Defense Acquisition Fund, because as you know, it was in our fiscal year 1982 bill, but was lost in conference.

Now, was there a question as to whether you are trying to fund this through the Defense subcommittee, and why did you switch it back and, why did you add it now at the last minute?

Mr. **BUCKLEY**. It was our understanding that given the fact that the Defense Department has the main responsibility for deciding what goes into that pipeline, although we retain our authority over any sales from that pipeline, it was our understanding that the jurisdiction had been placed with the Armed Services Committee for this special fund.

Senator **KASTEN**. And it was changed from last year to this year?

Mr. **BUCKLEY**. Last year we asked for it, but we understood this was an arrangement within the Congress. Then we learned subsequently that the Appropriations Committee, that your subcommittee had decided to retain authority over the appropriations, although it is our understanding that the Armed Services Committee will be looking or overseeing what is put into it.

So in effect we had mixed signals on who was doing what.

Senator **KASTEN**. It is charged against our function, in the budget also. I do not understand what changed between last year and this year. Last year you came to us with it, and I understand also that the House has told you that it would be under the jurisdiction of their Foreign Operations Subcommittee, although in the House you also tried at one point to fund it through the Defense subcommittee.

Mr. **BUCKLEY**. No, we didn't. That is erroneous. It is up to the Congress to decide what committee is overseeing what functions, and this is just a case of mixed signals. We are happy to have you in charge.

Senator **KASTEN**. I hope we can be more successful.

The committee was concerned with this supplemental because, in a sense, what you are doing is requesting funding which was turned down by the conference in the 1982 bill. Basically it was part of an overall compromise which we were able to meet with the House.

## AFRICAN DEVELOPMENT FOUNDATION

You sent up a rescission request for $2 million eliminating the African Development Foundation. I don't have strong feelings about the African Development Foundation, but the approval of that was an element in the compromise that we put together for fiscal year 1982.

I think it is important that you recognize that it is going to be very, very difficult for us to accept $300 million of security assistance which essentially we could not get through the conference, and while eliminating $2 million for something that at least some members of the conference thought very, very strongly about.

Mr. **BUCKLEY**. In the light of that we have rescinded the rescission.

Senator KASTEN. When was that done?

Mr. BUCKLEY. Very, very recently. I think it was Friday.

Senator KASTEN. That is good. It is too bad that you went through that drill because the compromise and the kind of block-building that was done would have been jeopardized. I think that we need to at least keep that central compromise in place and build from it.

### GREECE AND TURKEY

I was in Greece recently. In my visit with Prime Minister Papandreou, I did not sense a lot of concern about the 1983 request insofar as the ratio between Greece and Turkey is concerned.

There is a concern, but he didn't force that issue as strongly as some other issues that we discussed. However, a great many Greek-Americans are letting us know of their concern over increased aid to Turkey, especially because they view Turkish inaction on the Cyprus situation as a reason not to provide increased aid.

What are we doing to try to get a settlement on the Cypriot issue and perhaps you would also like to justify that increased aid to Turkey.

Mr. BUCKLEY. In the first instance, we are urging that there be cooperation on both sides with the negotiations in Cyprus, within the two factions in Cyprus to see if we can get some progress. We understand the needs.

With respect to justifying the increased request for Turkey, the fact is that if you look at a map, Turkey occupies critically important pieces of landscape from the perspective of being the southeastern flank of NATO, in terms of being a buffer against any attempt to drive south on the Eastern Mediterranean, plus the fact especially with the fall of the Shah and the warfare going on between Iran and Iraq, Turkey assumes a large potential importance vis-a-vis the stability in the area at the top of the Persian Gulf.

Now the Turkish state has extremely capable manpower, half a million men, but they are dealing with equipment that is eroding at a dangerous rate.

There was, of course, that large hiatus that followed the problems in Cyprus in which military assistance was cut off entirely.

Now there is a tremendous catch up need in order to restore the capability of this force of manpower to hold and execute their functions within the NATO scheme of things. Deterioration has been massive, and the needs are massive and the amount of assistance that we are recommending really doesn't begin to do the job, but it is necessary to keep things from getting worse and start on the road toward improvement.

This is I believe a very studied and considered judgment of the military who have looked at it.

### CYPRIOT PROGRAM

Senator KASTEN. Along the same lines, we are seeing a number of complaints and questions about the decision to eliminate the funding for Cyprus.

First of all, do you know what the size of the pipeline for the Cypriot program is and specifically why did you cut out new requests for Cyprus for this year?

Mr. Buckley. Well, as I explained, we instituted a very rigorous process which was designed to filter out the most pressing needs and to compare one country against another in a very complex equation.

This meant curtailing or cutting programs in a number of countries where one would have liked to do things, but we couldn't come in good conscience before this committee and this Congress in this particular year and support things which were "druthers" rather than necessities.

The fact is that the Cypriot economy is such that it is simply not in as hard-up a position as a number of other potential claimants. So it was a judgment based on that.

As far as the pipeline is concerned, since 1974, the United States has furnished a tremendous amount of economic assistance, over $130 million, through fiscal 1981, and we were scheduling another $15 million for 1982.

The result of all of this assistance, plus the contributions from other nations, and we keep on forgetting that we are not the only contributor in many, many instances, as well as international organizations, plus the entrepreneured assistance of the people of Cyprus, has had remarkable effects.

So we find that per capita income in the area of the island controlled by the Government of Cyprus is over $4,000 per capita, with a very low inflation and unemployment figure. It is within this context when you see needs elsewhere, that we drew the judgment that the continuing funding simply was not justified.

Obviously if the Congress wants to increase the——

Senator Kasten. Maybe for the record you can supply information regarding the pipeline. That is what I was interested in.

[The information follows:]

### Cyprus Pipeline

As of September 30, 1981, the UNHCR reported that there was an undisbursed balance of $248,472 for prior years and $9,278,616 undisbursed of the $12.5 million obligated in fiscal year 1981 for a total pipeline of $9.5 million for the UNHCR. In addition, the $1.5 million obligated for the Scholarship Program very late in fiscal year 1982 had not had time to disburse.

The $15 million available for fiscal year 1982 is in the process of being obligated and therefore not counted in the pipeline.

## ISRAEL

Senator Inouye. Mr. Chairman, listening to the statement, I note that over 53 percent of the security assistance program is spent for Middle East objectives. Keeping that in mind, I have a few questions relating to that part of the world; the remainder I would like to submit for the record and request that the Secretary respond to them.

My first question is a bit sensitive, so, if I may, I would like to just read it out, sir.

It is widely recognized that the administration's decision to sell AWACS and the F-15 enhancement package to Saudia Arabia increased the threat to Israel's security. In fact, in our hearing last year, you told the subcommittee that your office believed the "additional threat could be met through the purchase of additional F-15's or F-16's or other mixes that the Israel military may believed to be necessary or desirable."

Now this year the administration has proposed a $300 million increase in foreign military sales credits to assist Israel in meeting the increased threat. However, the administration has also proposed a decrease in the forgiven portion, or the grant portion, of assistance to Israel.

How can the administration justify this decrease in the forgiven portion when the announced intent of the program add-on is to meet the increased threat?

Mr. BUCKLEY. In the first instance, that $50 million that we did not carry forward is $50 million more than we thought appropriate last year. We recognized that the Congress had a different judgment.

By the same token, again repeating what I said to the chairman, in this exercise for 1983 it started out from scratch, and we tried to build a block that we could justify to you as being in fact as tight a budget as we could submit consistent with our needs.

We believe that as hard-pressed as Israel is, and as large as its debt burden is, that nevertheless it has the capacity, given the half-billion dollar loans, forgiveness, and given the close to $800 million ESF grants, to handle this kind of burden, additional burden through a continuation of its austerity programs.

Senator INOUYE. When the United States sells advanced military equipment to the Saudis, and then attempts to redress the balance by providing Israel loans which, as you pointed out, increases Israel's debt burden, does Israel not find itself in a war of economic attrition with Saudi Arabia, and in that type of war can Israel hope to win?

Mr. BUCKLEY. I am not sure that anyone wants to go to war, win or lose.

Senator INOUYE. I am talking about the economic attrition war.

Mr. BUCKLEY. The fact is that the Israelis are hard working, and they are productive, and they are making advances in exports, so that as I say, it was the conclusion of our economists in their best judgment that this was something that was supportable.

The fact is, of course, that Saudi Arabia has security problems that have nothing to do with Israel and having to do with the resources they must protect and the increased challenges and instability in the region around the Persian Gulf.

So that you are familiar with the arguments last year in support of the package for Saudi Arabia. Yes, that created extra pressure for which the Israelis had to cope, and we believe that is an appropriate figure.

Senator INOUYE. Last year on this subject you told the subcommittee, "We are working closely with their economic and treasury people. When the time comes for formal presentation to the Congress it will be one within the capacity of the Israelis to handle."

From all I can gather, the economic and treasury people of the Government of Israel have indicated that this program is not one which is within the capacity of the Israelis to handle.

In this respect, if such be the case, can it not be said that the administration's proposed reduction of forgiveness would represent a breach of faith with the Israeli Goverment?

Mr. **Buckley**. No, because we disagree with the Israeli analysis. Most of the Israeli debt is long term, and we believe that it can be handled in the pursuit of economic policies.

Now I might add, Senator, that there are other ways in which we are working with the Israelis to try to handle these things, but purchases, Israeli services, and sales of equipment——

Senator **Kasten**. You will have to speak up.

Mr. **Buckley** [continuing]. These all have to be added in the equation.

Senator **Inouye**. I just noticed in your response you said the economic support program was all grants, and you meant two-thirds grant?

Mr. **Buckley**. Two-thirds grant; yes.

Senator **Inouye**. So you think it is within the capacity of the Israelis to handle this add-on with the reduction in the forgiveness?

Mr. **Buckley**. Yes.

Senator **Inouye**. Can you tell the subcommittee as a result of your analysis of this program what amount of this $1.7 billion Israel must use to make fiscal 1983 payments on equipment ordered in prior years?

We somehow suspect that some of this will be used not to purchase new equipment as you suggested, but it will be used merely to ease the financial burden of their previously ordered equipment.

Is that what we are doing?

Mr. **Buckley**. Well, I am sure that the economic support fund which goes into the pot, if you will, contributes toward debt service, but I wonder if we could turn to you for a more precise answer, Dr. Gaffney.

Dr. **Gaffney**. We have that figure. It is the way we do business with Israel. It is the cash flow, but I don't have the figures with me.

A portion would go toward prior year programs, not necessarily prior year bills, but the progress payments due in this coming year for programs which had already been started.

Senator **Inouye**. Which should indicate that this is adding to their financial burden.

Mr. **Buckley**. Not if you are making down payments on equipment. Any borrowing is an addition to the financial burden. The question is whether it is one that can be supported by the economy or not.

Senator **Inouye**. I would like to ask a few questions relating to the Camp David process, the autonomy negotiations and security assistance.

Under the direction of the civil administrator for the West Bank and Gaza, Mr. Menahem Milson, the Begin government has fired the mayors of three West Bank cities and advanced proposals for the creation of village leagues.

What is your position on the firing of these mayors?

Mr. **Buckley**. Senator, my jurisdiction within the State Department and responsibilities are rather explicit, and I am not involved in the determination of matters in response to happenings of the kind you state.

If you want to have the State Department position on that, I would be glad to get it for you.

Senator INOUYE. I would appreciate that, and also on, I believe, Bir Zeit University on the Israeli occupied West Bank has been closed.

I would like to know your position on that also.

Mr. BUCKLEY. All right.

[The information follows:]

### FIRING OF WEST BANK MAYORS

It is always unfortunate when elected officials are no longer able to serve their constituents. We remain convinced that the best way to assure the politically responsive representation of the inhabitants of the West Bank and Gaza is through the free election of a self-governing authority to replace the existing military government. Such elections are a central element of the autonomy agreement called for by the Camp David Framework.

### THE CLOSING OF BIR ZEIT UNIVERSITY

After being closed for two months—the second such closure this academic year—Bir Zeit recently was permitted to reopen. This second closure followed an incident in which an Israeli education official attached to the military government was apparently roughed up by students while visiting the campus during a period of high tension. It is a source of regret to us that the educational process at Bir Zeit and several other West Bank schools has been so often interrupted. The biggest losers are the students, who seek and need an education.

## ISRAELI SETTLEMENTS

Senator INOUYE. Today the Washington Post reported the establishment of six new Israeli settlements on the West Bank, and Prime Minister Begin is reported to have vowed that the Government of Israel will not dismantle settlements on the West Bank even in the event of a peace agreement covering that area.

How does the administration view the establishment of these settlements?

Mr. BUCKLEY. That we can get.

[The information follows:]

### ISRAELI SETTLEMENTS

As you know, the Camp David Accords stipulate that negotiations to determine the final status of the West Bank and Gaza are to begin as soon as possible and no later than three years after establishment of the SGA. These negotiations will be based on Security Council Resolution 242 which is the basis of the Camp David Accords. The future of Israeli settlements is one of the many issues which will have to be resolved during these negotiations.

## EGYPT

Senator INOUYE. I have a few others which I hope you can submit to the State Department. I have also a question on the cash flow which your assistant referred to.

The final question I would like to ask at this stage is this: Since the peace treaty with Israel, Egypt has become the second largest recipient of U.S. military assistance and Egypt has ordered some of the most modern and sophisticated equipment in the U.S. arsenal including F-4's, F-16's, and tanks, and improved air defense batteries and armored personnel carriers.

Are you satisfied that Egypt can effectively maintain and operate this equipment?

I ask that because the GAO just recently suggested that it will not be possible to have more than 40 percent of the aircraft flying at any one time.

Mr. BUCKLEY. I would like to turn that over to Dr. Gaffney.

Dr. GAFFNEY. Yes, sir, we believe that over time Egypt will be able to maintain and effectively operate this equipment. It will take a little time.

Senator INOUYE. How long will it take?

Dr. GAFFNEY. It is hard to say. Right now we plan 2- or 3-year turnovers of equipment which is installed. But we will extend it as necessary. Basically they hadn't had to maintain a lot of these systems before. The Russians did it all for them, so there is a learning process going on.

We think they will be able to learn what is a very complicated American system, but once operating, they will do so very effectively.

Senator INOUYE. I gather when we provided this sophisticated and complicated equipment, we were aware that the Egyptians were not capable of maintaining such equipment at the time?

Dr. GAFFNEY. We knew they didn't have the facilities or a lot of the trained mechanics and the administrative systems to handle this, but we thought that they had the basic capability to institute these systems over time.

Senator INOUYE. So would you say at the time of the transfer, it was more of a political move than a military one?

Dr. GAFFNEY. No, sir; because we knew what it would take with our assistance to make these systems operative very early on, and indeed we think the in-service rate for those F-4's are considerable considering the circumstances.

### USE OF EQUIPMENT

Senator INOUYE. What sort of restrictions or constraints do we have upon equipment that we sell to Egypt or Israel or El Salvador or wherever it may be? Do we have any restrictions on its use or constraints?

Mr. BUCKLEY. Self-defense is part of the arrangement, and if you are talking about security of sophisticated technology, there are special arrangements and agreements which are entered into regarding these.

Senator INOUYE. Are you satisfied that these conditions are being met?

Mr. BUCKLEY. Yes.

Senator INOUYE. I am not just picking on Israel or Egypt, but I am speaking throughout the world.

Mr. BUCKLEY. Yes, once in a while we have problems as we have in our own country, but as to the safeguards, first of all we are careful as to what technology is transferred in the first instance. It has been especially true in the last couple of years. There has been insistence upon basic safeguards that some of my friends in Defense feel have been effective.

### AWACS SECURITY SAFEGUARDS

Senator INOUYE. What safeguards have been instituted in providing security for AWACS?

Mr. BUCKLEY. Right now you will recall the President in a letter to the Congress stated that before the first AWACS were delivered there would be in place a series of protections. These are currently involving not only agreements, but also procedures and installations where appropriate. These are currently being worked out with the Saudis, and we are getting satisfactory cooperation.

Well before that delivery date, the President will be in a position to certify, or there won't be any delivery. But I would point out that we have had a long history with the Saudis, and I believe in the case of the F-15's and some of the systems associated with the F-15's, there are elaborate precautions, including who can have access to the buildings and so on which satisfied our military that they were pretty reliable.

### FISCAL YEAR 1982 SUPPLEMENTAL

Senator INOUYE. Finally, on a subject outside the Middle East, in your supplemental we have sums that have been set aside for use in Spain and Portugal and Morocco.

Would you say if these sums were not appropriated, what would the effect be on our negotiations with these countries?

Mr. BUCKLEY. It would have a very, very dampening effect, a very dampening effect. I can't calculate what might be the absolute amount.

Senator INOUYE. Wouldn't it be a bit more correct if I used the word rent instead of assistance?

Mr. BUCKLEY. Well, either way it is contributing to the capacity of an ally. Spain is entering the NATO Alliance, and it is quid pro quo, however described, for our ability to continue basing facilities and access which are very important to our planning.

Senator INOUYE. Thank you very much, Mr. Chairman.

### ECONOMIC EFFECT OF MILITARY ASSISTANCE

Senator LEAHY. I have a couple of comments I would like to make at the beginning, and I appreciate this.

I have read through Secretary Buckley's testimony, and as you acknowledge, you have a tough task ahead in this Congress. I want you to know that I agree with you totally, for whatever that is worth, but I would like to understand the testimony a little bit better.

I would like to comment on a couple of the assumptions behind some of the statements. For example, you state that this request for increased military/security assistance will "reduce the economic and social turmoil that breeds domestic violence and invites external intervention."

I suspect that less innocent people than myself, people who tend to be skeptical, and I understand we do have some, might have a little trouble with how the increased military assistance will reduce the economic and social turmoil.

Mr. BUCKLEY. Is that military assistance or security assistance?

Senator LEAHY. I am referring to military assistance. Also in the testimony it says "a failure to achieve viable economies and stable political institutions makes less developed nations inviting targets."

I happen to agree completely with that, but then I wonder about the explanation of how our military assistance will contribute to the viability of economies that are going bankrupt that they can hardly feed their people, let alone field a sophisticated army full of technical equipment.

I raise these questions because I am concerned about the problems of hunger and poverty that afflict so many in the Third World. But I also see these questions in the light of our own national interest.

I do share your goals of seeing economic development around the world, but I question the fact that we should be relying on military assistance to achieve that end.

There was a recent econometric study commissioned by the U.N., and this study, and let me make sure I have the numbers right, says that in 69 countries it was found that while military spending does not necessarily lead to lower levels of economic growth in developed countries, higher defense spending resulted in lower economic growth in all 54 developing countries.

The study also found defense spending in developing countries resulted in a shift of resources from the agricultural sector to heavy industry to support a military establishment. The study found that each dollar spent in defense reduced agricultural output by 20 cents.

So I question whether this bill as reflective of administration policies, is in our long-term security interests.

There is a statement that says "Security assistance is the most cost-effective payment we can make to meet fiscal challenges."

Later in your statement it says that this military aid package "will promote peaceful solutions to regional rivalries."

Again, more sophisticated Vermonters than myself might ask questions about these statements, and I wanted to be sure I am representing my constituency in raising the questions for them. It is possible, some may say, that building up everybody's war machine may possibly increase tensions and the threat of war.

I wonder if we keep on emphasizing foreign aid as being basically sending sophisticated equipment and weapons to the Third World, are we encouraging military solutions to economic problem? I note that over 95 percent of the 125 conflicts since World War II have taken place in the developing world.

Let me ask a couple of specific questions.

### HONDURAS

You are asking in your statement for $17 million for Honduras to counter insurgent movements. Yet, I didn't see anything in the official program justification that makes mention of insurgents or have I overlooked that?

Is there an insurgent problem in Honduras now?

Mr. BUCKLEY. We hope there won't be, but there are problems of people poaching on their territory from Guatemala and Nicaragua. They are in tremendous need for enhancing their capability of policing their own landscape and keeping troubles aside.

It seems to me that is self-evident from what we have seen in Central America in the past year and a half.

Senator LEAHY. But it says they are needed to counter insurgent movements. Those are anticipated insurgent movements?

Mr. BUCKLEY. Or other people's insurgents that are trespassing upon their territory.

Senator LEAHY. There is an insurgent problem in Honduras now, and I want to make sure I understand you. We are not hearing the same thing up in the Intelligence Committee.

Mr. BUCKLEY. There is traffic over and through Honduras, so they have borders that they have to protect, not necessarily insurgents trying to topple the Honduras Government, but people that are free and easy with their territory.

Senator LEAHY. Well the supplemental program request says the Honduras military has had "impressive successes" in intercepting illegal arms flow.

What are some examples of that, those impressive successes?

I am delighted to hear it. This is the first I heard about it.

Mr. BUCKLEY. This is what I have been told by our intelligence people.

Senator LEAHY. I would like at least one example. You know, I asked the same question of our intelligence people and maybe I misunderstood their answer. That is why I am asking the question here.

Mr. BUCKLEY. It is not stuff that is being used against Honduras.

Senator LEAHY. I understand what we are speaking about. But I am not aware of the impressive successes in interrupting the illegal arms flow. I have asked our intelligence sources, and I am asking you in your justification, what are those impressive successes?

Mr. BUCKLEY. I am advised that there have been some, and I can't recite chapter and verse.

Senator LEAHY. Do you have a copy of your supplemental program justification which is footnoted which might tell us what they are?

Mr. BUCKLEY. Senator, we will get you the citations on which that statement is based.

[The information follows:]

### HONDURAN MILITARY SUCCESSES

The efforts of Honduran security forces (FUSEP) in interdicting arms from Nicaragua to the Salvadoran insurgents are continuing. Arms routes are multifaceted and involve not only Salvadoran guerrillas but also sympathetic Honduran leftists. Because of the ongoing nature of the resupply operations, Honduran FUSEP authorities have kept information on most successful interdiction operations out of public view in order to better monitor and neutralize these logistics networks. Therefore, a classified briefing on FUSEP interdiction efforts is the appropriate vehicle for addressing your concerns and at the same time safeguarding the sensitive nature of the information.

The CIA has been notified of your interest in the matter and has agreed to provide such a briefing to you. Please contact Mr. Jerry Prehn at 351-6136 to arrange a mutually agreeable time. Mr. Prehn works in the Agency's Office of External Affairs, Legislative Liaison Division.

Senator LEAHY. I would like to go back in the other committee and check on this information.

Mr. BUCKLEY. All right.

Senator LEAHY. I certainly want to see the document showing these examples.

Mr. BUCKLEY. Undoubtedly it will be marked "Secret" all over the place.

Senator LEAHY. We have been even allowed access to secret material in the intelligence committee in the past. It varies from day to day, and in fact there have been times, you will be impressed by this, that the material has come to us so quickly that on one occasion I recall we got it before it was on the front page of either the New York Times or the Washington Post.

Mr. BUCKLEY. That must be some kind of record.

Senator LEAHY. It was. We have been able to keep almost current with monthly publications, but dailies have been more difficult.

Back to your presentation.

It says that these funds are needed to help the buildup of Nicaraguan Forces.

What is the size of the Honduran Army now?

Dr. GAFFNEY. I don't have that answer immediately available.

Senator LEAHY. Do you know what the size of the Nicaraguan Army is?

Dr. GAFFNEY. No, sir. That is not my immediate job to track those particular figures.

Senator LEAHY. One cabinet member told us it was 300,000. We went back to his 300,000 figure, and it went down to 21,000, but I didn't know if that was still current. According to this official 300,000 was a ball park figure, but 21,000 was more exact. That was not an official member from the State Department, however.

How much money would it take to build up the Honduran forces to an acceptable level? Again I am trying to understand the $17 million which is to help Honduras handle the Nicaraguan forces. What are we talking about?

I don't ask these questions in a frivolous fashion because we are going to have supplemental appropriations and more and more.

You know, I am trying to justify voting for cuts in virtually every single program that the State of Vermont relies on, and I am going to have to try to justify voting for money for other parts of the world I am going to be asked questions. Every one of us will be asked these specific questions.

Can I get an answer to that for the record then on these questions:

What is the size of the Honduran Army, the Nicaraguan Army, and how much it would take, in your opinion, to build up Honduran Forces to what you would find an acceptable level?

Mr. BUCKLEY. We will give you that, but I think the problems that are faced by Honduras are self-evident.

[The information follows:]

### NICARAGUAN ARMED FORCES

The Nicaraguan active duty forces number 20,000-25,000, while reservists and militia exceed 50,000. These forces are trained by over 2,000 Cuban military and security advisors. The Sandinista active duty forces are at least twice the size of Somoza's National Guard.

### HONDURAN ARMED FORCES

There are 12,000 military personnel in the Honduran Armed Forces. The Army is the largest branch with 10,800 men, while the Air Force has 1,000 and the Navy only 200. Until recently, Honduras had a very credible military force in the region. However, the massive military buildup in Nicaragua and the use of Honduran territory for arms trafficking to Guatemalan and Salvadoran guerrillas changed the situation. The fiscal year 1982 supplemental and the fiscal year 1983 request aim to correct in an adequate and appropriate fashion these developments. It is very difficult at this time to determine what Honduras will need beyond this period to maintain a credible military force in the future. Regional developments will at that time dictate new Honduran needs.

Senator **LEAHY**. Honduras is the poorest country in the hemisphere outside of Haiti, and the current government is almost bankrupt. Yesterday there was an article in the "Wall Street Journal" which reports that Honduran business executives have sent out at least 3.4 billion from the country, mostly to U.S. banks. The current President of Honduras remarked about economic aid component of the Caribbean Basin Initiative, that it is lamentable we find so little to solve the short-term problems in this region, belated economic aid would be like no aid."

Mr. **BUCKLEY**. If we get the Caribbean supplemental, that is $350 million.

Senator **LEAHY**. It is $17 million in military aid to Honduras and what is that going to do, really?

Mr. **BUCKLEY**. One can't attend to the economic problems and social problems without certain elementary feelings of safety. This is congenital in the human system, and it has always been that way.

One of the reasons we are urging this is because you have to have safety in order to have a stable society, in order to concentrate on economic development and on social development and political reform.

We believe that it is particularly important that we are allowed this kind of concessional aid.

Senator **LEAHY**. I am sorry, I am not familiar with the word that you used, "concessionality."

Mr. **BUCKLEY**. I mean less than market rates of money to help people get the weapons in order to keep people from poaching across their borders. That is an essential part of our ability to help other countries help themselves.

A significant part of what we are asking for in our supplemental is to restore the ability to help countries afford the weapons they need.

### EL SALVADOR

Senator **LEAHY**. Do you feel, for example, that a sense of security would come in El Salvador from trying to bring about a military solution?

Mr. **Buckley**. I believe their sense of security will come about if you can keep people from sabotaging your economy, as has been the consistent efforts of the guerrilla forces in El Salvador.

Senator **Leahy**. Do you think that that is going to stop simply by pouring more military aid in there? We could stop them perhaps by putting in a substantial amount of American ground forces, but we are not about to.

Are we going to bring that to a halt by talking with the government and saying "We will give you all of the military aid you want and that will stop the economic damage, and bring about security?"

Mr. **Buckley**. I don't think anyone is proposing that, but there are examples elsewhere in Latin America, as well as a specific example where judicious military power has been able to contain guerrilla type assault while economic and political reforms have gone forward that have brought stability and democracy.

Senator **Leahy**. To which country?

Mr. **Buckley**. Venezuela, as an example, and I believe one would hope to have a repeat of that in El Salvador.

Senator **Leahy**. Venezuela is in a little different situation, they do have some oil.

Mr. **Buckley**. Therefore, they were able to afford what they did, but nevertheless the problem was the same, and the techniques are continuing of the guerrilla efforts which would be the same.

Senator **Leahy**. Do you see the guerrilla effort in El Salvador being contained through military efforts or political efforts?

What is a military application or a political application?

Mr. **Buckley**. It is to keep your economy from being destroyed while, No. 2, you proceed with political reforms. That extraordinary election is an example of what can be achieved to build a representative institution to solve your problems politically.

Senator **Leahy**. Is it a representative institution when the party that received plurality has no say in the government?

Mr. **Buckley**. Each country organizes in its own way, and it is not unusual to have coalitions in other countries end up in charge of the government.

Senator **Leahy**. To the total exclusion of the one that got the plurality?

Dr. **Gaffney**. That is true in the Federal Republic of Germany today, sir.

Mr. **Buckley**. One shouldn't prejudge what the results are going to be, but observe what happens.

Senator **Leahy**. I am observing. By the amount of mail each one is receiving, I suspect a lot of our constituents are, too.

Thank you.

Senator **Kasten**. Thank you, Senator.

Senator Inouye brought up the questions regarding Israel, and I think it is fair to say that a number of people in Congress are concerned whether or not Israel can afford additional debt or if this $300 million should be in the form of direct credits.

You answered that question, but it is of concern to a number of people on this committee and in the Congress that we continue to put them deeper in debt.

Senator **Leahy**. Mr. Chairman, I forgot to mention, I may have additional questions for the record, and I ask to submit those.

Also, I will state my earlier request that at some time it may be helpful if we could have a meeting on the question of El Salvador. I know that so far this year we haven't had one.

### ISRAELI DISBURSEMENT

Senator KASTEN. Surely.

The Congress last year in our bill and in the House bill and in the conference report put in language regarding the disbursement of economic support funds for Israel. The administration so far has ignored this direction.

Is the administration now willing to comply with our instructions on the disbursement of the economic support funds for Israel?

Mr. BUCKLEY. As I wrote you, I believe, as well as Senator Inouye, almost coincident with the time that the Congress was issuing its report and recommendations which, believe me, we take very seriously, there was the annexation of the Golan Heights, and this caused the President to conclude that it would not be appropriate in those circumstances to do more than business as usual, lest the wrong signals be given.

But I did point out that business as usual which we had been adopting was more favorable in terms of advanced payment than is true of any other country in the world.

Senator KASTEN. The situation with Israel has changed somewhat since that time, and we are working with them in a number of different areas, especially now with Secretary Stoessel coming back after the completion of the Sinai withdrawal.

Do you think under the circumstances that you would now be able to comply with the committee's direction regarding the disbursement of economic support funds for Israel?

Mr. BUCKLEY. With respect to that last payment, I certainly will look into it.

Senator KASTEN. Your statement does not include nor does it touch on the peacekeeping request, including the request for the MFO. That is part of your responsibility, is it not, the peacekeeping?

Mr. BUCKLEY. I don't superintend it, but I do have to see that the document we introduce covers that contingency and the need.

Senator KASTEN. Who is in charge of that, and who would be able, for example, to provide us with a report on how the MFO is working?

I know it has only been in operation since Monday, but that was a subject of some controversy last year. I think it is an unnecessary controversy. Who is it that justifies that request or will be reporting on it?

Mr. BUCKLEY. I was requested to find funds for it through reprograming. Of course, it comes under Assistant Secretary Veliotes, and he would be the appropriate person to ask how that is operating and any other questions you might want to ask.

But it was because of that experience and because of the difficulties we had in quickly finding funds in Chad that we are requesting this year for special authority for peacekeeping forces, against the contingency of future needs of that kind.

As you will recall, under the Camp David accord, it was anticipated this would be a U.N. force. That fell apart, and it became not available, and then we had to patch together the present arrangement.

Senator **Kasten**. It is my understanding that in previous peacekeeping operations this subcommittee and your Department have dealt with these issues. So we are evidently changing that procedure if we are going to switch it to someone else.

### RAPID DEPLOYMENT FORCE BASE

On April 9 I visited Ras Banas, the airbase we will be modernizing for use as a forward position for the rapid deployment force. It seems to me that it could be an excellent location in many respects.

What funding role will this subcommittee play, and what role will you be playing, if any, with respect to that base and to the rapid deployment force positioning?

Mr. **Buckley**. That is in your military part.

Dr. **Gaffney**. That is in the military construction budget of the defense budget, and it is being reviewed by those committees here on the Hill.

Senator **Kasten**. There will be nothing in foreign operations having to do with that, or with any of that operation?

Dr. **Gaffney**. It is certainly not involved in these kinds of security assistance budgets that you are reviewing here.

### EGYPTIAN PIPELINE

Senator **Kasten**. The continuing and main problem with respect to the economic program in Egypt is the huge pipeline. I am told it is now over $2.2 billion, representing almost half of AID's entire pipeline.

How do you view this problem, and why do we allow it to continue, and what are you doing to try to deal with the problem?

Mr. **Buckley**. It is gradually being digested. It started out in a decision a few years back, and it was that Egypt has an enormous infrastructure problem. When you are dealing with those kinds of projects, by their very nature they take a lot of time to plan and construct and fund.

But my understanding is that these are beginning to shrink and the future emphasis that is being developed now is for far greater stability and speedier programs and programs that are centrally directed, so that as time goes on we expect you will find a significant shift.

Senator **Kasten**. What is your view of possibly shifting the Egyptian program from funding on a project-by-project basis to loans or grants based on sectors of their economy; or what is your view of treating Egypt as we treat Israel, simply funding programs which they then operate and manage on their own?

When I was in Egypt I spoke to a number of officials there, and I feel that one of the problems we have is that we have an Egyptian bureaucracy and a huge AID bureaucracy; by the time it goes through all of these bureaucracies, the two bureaucracies don't always agree and we have too many people involved.

If we could give them more latitude, it seems to me that it would begin to solve part of this problem of the pipeline. Frankly, I strongly feel that we could move in this direction.

Mr. BUCKLEY. That is what I intended to suggest when I said we are moving toward greater flexibility, toward the sectoral thinking as you recommend. In fact, there is in effect an agreement in principle with the Egyptian Government that this is the way our assistance should be proceeding.

The details have not been worked out, but nevertheless I believe you correctly describe in terms of the flexibility and the quickness and getting rid of the red tape and so on, the direction that AID is now pursuing.

Senator KASTEN. In other words, this direction has been essentially agreed to by AID, and this is the way we are going to start?

Mr. BUCKLEY. That is my understanding, right.

Senator KASTEN. While I was in Egypt I heard expressions of need for assistance in providing them with modern avionics for some of their other aircraft, and also for *Tacoma* class ships for their Navy.

What is your view of the priority of these particular needs, and do you expect any action on either of these items in the future?

Mr. BUCKLEY. We know that people are looking at the *Tacoma* ships and there are various people looking at ways of extending the life and utility of the Mig's.

But I would need to point out that the funds that we are discussing here are totally committed, and not only for items previously ordered, but for the F-16's and M60 tanks, and there simply is no room prior to 1984 to consider these other items. We have received no request at this point from Egypt for avionics.

Senator KASTEN. Last year the Administrator of AID talked to us about the possibility of Congress, and it wasn't in a hearing, but we talked about the possibility of Congress providing AID with reobligation and deobligation authority. I indicated to him at that time I felt the subcommittee would do so. We have not, however, received such a request, and frankly I am thinking about going ahead and providing you with that kind of authority anyway.

What is your view of the necessity of deobligation and reobligation authority, especially as it relates to Egypt.

Mr. BUCKLEY. If I may, I would like to defer that question to AID. I think you can get a more precise answer that way.

[The information follows:]

### EGYPTIAN ESF PROGRAM

We appreciate the Subcommittee's interest in and support for such a provision. AID is now in the process of consulting with Egyptian Government officials to determine how and whether deobligation-reobligation might be applied to the Egypt program, and at the same time, we are examining how this proposal might affect the AID program worldwide. We would hope to be sending you a specific proposal shortly.

## SECURITY ASSISTANCE AND MULTILATERAL ASSISTANCE

Senator LEAHY. Mr. Secretary, you stated that security assistance is the most cost-effective method to meet today's challenges and hence the prospect of a safe future which all nations wish. I join with you that all nations are trying to reach that point.

I think both you and I may not live quite that long, but I don't question the sincerity of everybody in this room on that.

But is there any evidence really to back up the statement that security assistnce is the most cost-effective method?

Mr. BUCKLEY. If you think it is better to have Egyptians looking after Egyptian security than Americans stationed there, or to have Pakistanis able to deter attack out of Afghanistan than trying to build an American rapid deployment capability, if we think that such an attack would threaten vital interest of ours, I think mainly, yes.

Senator LEAHY. But we are building the rapid deployment force anyway.

Mr. BUCKLEY. We are, but it depends for its effectiveness and in terms of Defense Department planning, very heavily on the enactment of these kinds of programs that we are asking the Congress to authorize and fund. That is because it anticipates that there are forces in place that have certain capabilities, that anticipates that we have access rights, and it anticipates that there are runways of certain dimensions and spare parts, and that there are warehouses and communication systems and this whole complex that enables our rapid deployment forces to move and reach a safe haven that is still there and reasonably protected.

Senator LEAHY. But that is only one part of U.S. interests. Do you feel, for example, it is more cost effective than the multilateral development banks where we have an awful lot of leverage on dollars that are spent? You would feel that the security assistance is more cost effective than that?

Mr. BUCKLEY. In terms of the U.S. security aspects, yes.

Incidentally, in terms of your earlier reference——

Senator LEAHY. The security aspects, that can involve an awful lot. If we are talking about the overall security of the United States, it is a major part. If we are unable to compete economically around the world, it is part of our security aspects; if our schools are not turning out people who can compete worldwide and can't speak languages and don't have scientific skills and so on, it affects our security interests if we are seen as a collapsing economy.

These are all parts of our security interests, are they not?

Mr. BUCKLEY. In the broadest possible sense, which is why we continue to make a very major contribution to multilateral funds, the account where we have asked more from the Congress than the Congress has authorized.

Yes, but in terms of a sharper focus, in terms of strategic interests, the role of Turkey in relation to its being the eastern anchor of NATO and the protection of the southern flank of Europe, we believe that security assistance to Turkey is a very cost-effective way of seeing to it that that portion of an area important to the United States is in fact adequately protected.

It costs the Turks about $6,000 to have a man in the field, and it costs us about $90,000.

Senator LEAHY. Isn't it also important to have their economy built up?

Mr. BUCKLEY. Which is why over half of our assistance program involves economic support, yes.

Senator LEAHY. Economic support of the military?

Mr. BUCKLEY. No, that is why earlier when you were talking about my statement——

Senator LEAHY. Half of the security assistance has nothing to do with military?

Mr. BUCKLEY. That is why I asked you whether you meant military or security assistance. I believe from what I have been able to glance at I was talking about security assistance, which is a blend.

Senator LEAHY. To make sure I understand, when you are talking about security assistance, 50 percent of it has absolutely nothing to do with military?

Mr. BUCKLEY. Fifty percent of the cash outlay, and you are talking about the FMS grants and the off-budget, as well as the others, it is about one-third.

Senator LEAHY. What kind of leverage do we get out of that? We talked about the MDB's earlier and obviously there is a great deal of leverage there.

What do we get out of this 50 percent, what kind of leverage?

Mr. BUCKLEY. First of all, we get tremendous political leverage which is an important objective of this kind of exercise.

Senator LEAHY. Can you give me an example of that, where we have gotten a great deal of political leverage out of this?

Mr. BUCKLEY. I believe we have it in Turkey, an example of where our economic support has been very important. We have another one which is Jamaica, where our security assistance is 99.9 percent economic. The Caribbean Basin assistance will be five-sixths economic.

### PAKISTAN

Senator LEAHY. You mentioned Pakistan, and has it given us any leverage over there?

Mr. BUCKLEY. I think so. I think very definitely if we had not had this relationship you would have had an explosion. I believe that that has been muted, and it is less likely that there will be a nuclear detonation by virtue of the fact that we have this relationship.

Senator LEAHY. Could they develop a bomb without exploding one?

Mr. BUCKLEY. They could develop something and put it on a shelf.

Senator LEAHY. Can they develop a nuclear weapon?

Mr. BUCKLEY. You will have to ask more sophisticated people than I am.

Senator LEAHY. The answer is "Yes," at least from the Hill experts.

Dr. GAFFNEY. What is the answer?

Senator LEAHY. I have asked that question of Hill experts, our own arms control people, who tell us that the state of the art is such now that you can develop—given any kind of a technological background, you can develop a weapon without having to detonate it first.

Dr. **Gaffney**. I worked on this subject for some 12 years, and I am not the expert myself, but I did have a guy working for me who knew very much about the inside of these things. He said you really never would know whether you have a fizzle or not without testing, and you are never quite sure you have a working bomb.

Senator **Leahy**. That could be said of a lot of our own strategic weapons. Can you fire over the Polar Cap? We don't know the answers to that, which could be said of us and the Soviets.

But let me ask one last question, and I know the chairman has to leave.

### PEACE CORPS

You are the coordinator of assistance, proposing a $1.8 billion increase proposed for military assistance. Do you believe the administration can't find even $8 million to fund the Peace Corps at last year's level?

Mr. **Buckley**. This is all a question of trying to cut to the barest minimum required to meet objectives. It is a judgment call.

Senator **Leahy**. The Peace Corps may feel that they have been cut to a barest of the barest minimum even to get the $8.1 million increase.

Mr. **Buckley**. These are judgment calls.

Senator **Leahy**. Thank you. I should mention that I had the privilege, and I do consider it a privilege, to have served in the Senate with Secretary Buckley when I first came here and, as always, I am glad to see him.

Senator **Kasten**. Thank you, Secretary Buckley.

This concludes our hearing for this afternoon. Thank you for being so patient, and we are sorry about the votes.

### SUBMITTED QUESTIONS

The hearing record will remain open for 2 weeks for the submission of questions, and we hope you can get back to us in 2 weeks.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### REASON FOR SUPPLEMENTAL

Senator Kasten: It is traditional -- a normal practice for supplemental requests to be considered only if they are a result of something which has occurred between the time the regular Bill has passed and the supplemental is requested. In other words, supplementals normally are not requested or considered simply because Congress didn't provide them in the regular Bill, except, of course, because of oversight or lateness of budget requests.

Isn't your fiscal year 1982 security assistance request simply a re-asking of that portion which Congress did not provide you in the regular fiscal year 1982 Bill?

Mr. Buckley: Supplemental requests generally result from the reasons you cite. The circumstances surrounding this year's request are extraordinary. Congress chose not to appropriate the FMS direct credits which were central to our security assistance planning. Instead, a far smaller amount of MAP was provided, necessitating extensive reallocations which coincided with new demands discussed in detail elsewhere.

### MR. BUCKLEY'S ROLE WITH RESPECT TO FOREIGN ASSISTANCE

Senator Kasten: Would you describe for us your overall role with respect to foreign assistance, not just security assistance?

Mr. Buckley: As you know, under various sections of the Foreign Assistance Act, including Section 622, the Secretary of State is responsible for providing policy guidance, general direction and continuous supervision for all U.S. assistance programs. He has asked me to coordinate the allocation of all types of foreign assistance in which the Department of State is involved, and to assure that U.S. assistance programs reflect the foreign policy objectives of this Administration.

### PARTNERSHIP OF THE EXECUTIVE AND LEGISLATIVE BRANCHES

Senator Kasten: It is my belief that this subcommittee has worked hard to develop a good working relationship with the Administration. That we have made an effort to give the Administration the flexibility needed to conduct its foreign policy.

However, if the Administration continues to ignore specific directives by the subcommittee--and, of course, by Congress--it will be more difficult to continue this policy of flexibility.

It has even been suggested that Congress must again legislate--rather than direct--in the foreign aid bill.

Would you care to comment on this?

Mr. Buckley: We appreciate the assistance and cooperation provided by the Senate Appropriations Subcommittee on Foreign Operations. We hope that this partnership will thrive and expand.

We gave the subcommittee's recommendations in the FY-82 Foreign Assistance Appropriations Bill careful consideration in the formulation of our policy decisions. You may be assured that the concerns of you and the other members of your subcommittee have been brought to the highest levels of the Executive Branch.

The protection and promotion of America's international goals and objectives require maximum flexibility in the conduct of our foreign policy. Events not foreseen when resource allocations were made months earlier, need to be dealt with in a timely, efficient manner by policymakers. For example, none of us foresaw the awesome tragedy of Lebanon and the need for relief assistance it would entail.

Accordingly, we do not believe that a specific set of legislative earmarkings or directives would necessarily produce a more efficient foreign policy or even a more efficient utilization of foreign assistance resources. We would rather continue the practice of frequent, informal consultations on matters of mutual interest to the subcommittee and the Administration.

## NEGEV AIRBASE CONSTRUCTION PROGRAM

Senator Kasten: On April 6th I spent some time at the airbase which is under construction at Ramon in the Negev. Israeli officials involved in the construction of the airbase very strongly pointed out that they felt this airbase was costing more funds than necessary because of bad decisions and rules and regulations by some of the American agencies involved in the building of the airbase. Are you aware of these complaints?

Mr. Buckley: We are aware of these general allegations which have surfaced on and off over the past year.

Senator Kasten: Have you investigated them?

Mr. Buckley: The Army Corps of Engineers has closely monitored the entire airbase construction project, including those decisions which have resulted in additional project costs.

Senator Kasten: Do you at this time, have any comment?

Mr. Buckley: The airbase construction project was put on a "fast track" to ensure construction was completed by April 25, 1982. By its very nature, any "fast track" project of this type is not as efficient in terms of cost and quality as a project which follows a normal construction schedule. We will be referring this question to the Corps of Engineers for a more comprehensive answer.

## TRANSFER OF BUILDINGS FROM ISRAELI AIRBASE AT EITAM TO MFO

Senator Kasten: On the same day I was at Ramon, I visited with General Bull-Hansen of the Multinational Force and Observers at Eitam. While I was there, I learned that many of the buildings which were left by the Israelis had been sold to the MFO by the Israelis -- had they not been sold, Israel would have destroyed them.

Didn't we make any effort to try to get Israel to contribute these buildings, rather than making the MFO purchase them?

Mr. Buckley: With respect to the buildings at the former Israeli base of Eitam, the Israelis agreed and did leave behind free of charge to the MFO all permanent structures with one exception. Security buildings, i.e., plane enplacements, ammunition storage bunkers, communications facilities, etc., were destroyed by the Israelis. In addition to the permanent structures, there were also prefabricated buildings which, of course, had a value and could be used elsewhere. A few of those structures which met MFO's needs and whose price was less than the cost of importing the same structure were bought by the MFO. The remainder were removed by the Israelis for use elsewhere.

## REPORT ON MFO OPERATIONS

Senator Kasten: With respect to the MFO, a report on how it is working might be worthwhile, although I do understand it has only been in operation since Monday.

Mr. Buckley: The MFO has been in operation only since April 25 and consequently there is little to report on its operations as yet. However, Public Law 97-132, which authorized U.S. participation in the MFO, requires a report on MFO's activities up through April 16, 1982. Such a report is being prepared by the Department of State and will be sent in the near future to the Speaker of the House of Representatives and the Chairman of the Senate Foreign Relations Committee.

## EGYPT: APPROPRIATIONS FOR RAS BANAS

Senator Kasten: On April 9th, I visited Ras Banas, the airbase we will be modernizing for use as a forward positioning post for a rapid deployment force. It seemed to me to be an excellent location in most respects. What funding role will this subcommittee play, if any, with respect to that base?

Mr. Buckley: As you know the President has included in his FY-83 budget proposal a request for military construction funding to be utilized in the upgrading of Ras Banas. The Congress will, of course, review and act on this request in accordance with its own procedures. Exactly how responsibility will be allocated within the Senate Appropriations Committee is a matter entirely within the purview of that Committee.

## EGYPT: POSSIBLE USE OF CAIRO WEST

Senator Kasten: Also in regard to Ras Banas -- it is my understanding that the West Cairo facility is being suggested as a site for the Rapid Deployment Force. What is your view of that suggestion?

Mr. Buckley: Egypt's offer to consider the possibility of U.S. contingency access to facilities has never been limited to Ras Banas. We have used the Egyptian airbase at Cairo West in connection with three different joint exercises conducted in Egypt, and it has been mentioned as a possible site for staging in agreed emergency situations. Under certain circumstances, this might prove advantageous, but it is our overall judgment that Ras Banas, once necessary construction is completed, would better serve most anticipated contingencies.

Senator Kasten: Isn't Cairo West already a full-fledged Egyptian military base? If so, would we have as easy access to it as Ras Banas?

Mr. Buckley: Yes, it is a functioning airbase, the installation at which Egypt has based its two F-4 fighter squadrons. That would not necessarily preclude U.S. access, particularly in that we are not speaking of a permanent presence but only of our use in agreed contingencies. Moreover, being currently operational, Cairo West offers near-term availability which does not exist at Ras Banas. Upgrading would, however, also be required at Cairo West, and it is clear that the need to plan for extensive potential use by both U.S. and Egyptian forces could be a complicating factor.

Senator Kasten: Isn't Cairo West in a heavily populated area?

Mr. Buckley: While Cairo West airbase is located in open desert terrain, it is correct, as its name suggests, that this facility is just outside Egypt's capital city, no more than an hour from the center of Cairo.

Senator Kasten: How important are port facilities to the Rapid Deployment Force base? I understand there are no port facilities at Cairo West.

Mr. Buckley: Clearly a major advantage of Ras Banas as a facility for contingency use by U.S. forces in an agreed emergency is the fact that it offers access by both air and sea, once required upgrading is completed. In terms of offering maximum flexibility in planning support for a range of contingencies, this is a major plus not offered by Cairo West. The latter is exclusively an air facility; the nearest port is Alexandria, roughly 100 miles to the north.

## EGYPT: SIZE OF PIPELINE

Senator Kasten: The continuing and main problem with the economic program to Egypt is the huge pipeline -- now nearly $2.2 billion, and representing nearly one-half of the A.I.D.'s entire pipeline.

How do you view this pipeline problem?

Mr. Buckley: We have also been concerned about the Egypt pipeline and have been devoting considerable attention to program implementation. As a consequence, disbursements reached $723 million in FY 1981 and this year are projected to exceed new commitments for the first time. Thus the pipeline level has plateaued and will begin to fall this year.

As of the end of FY 1981, the Egypt pipeline totaled $2.5 billion. Of this total, about $500 million was for the Commodity Import Program (CIP) and $2.0 billion represented the project pipeline. Most of the project pipeline is for fully funded projects. That is, funds have been obligated to cover the full cost of A.I.D. inputs over the planned four to five year project construction period. Thus the sheer size of a pipeline does not necessarily indicate a problem, as a "normal" pipeline would tend to equal three to four times the annual program level.

FY 1981 disbursements of $723 million represented an increase of 20 percent over the level achieved in FY 1980. Project disbursements of $350 million were 75 percent higher than in the previous year, reflecting the full scale implementation of many large capital projects which have moved from the final design phase to the construction phase.

The Egyptian Government has requested that we make greater use of incremental funding and sectoral forms of assistance in an effort to reduce further the pipeline. Our FY 1982 program will incorporate these concepts to a larger degree than in the past.

## EGYPT: PROGRAM CHANGES

Senator Kasten: What is your view of possibly shifting the Egyptian program from one of funding individual projects, to at least sectoral loans or grants; but better yet with some balance of payments or budget type financing as we do with Israel?

Mr. Buckley: The Administration has agreed to shift to the more flexible forms of assistance sought by President Mubarak during his February visit to support Egypt's efforts to institute reforms in the economy. It should be noted, however, that over half of our total assistance to Egypt already is provided in quick disbursing forms (CIP and PL 480 Title I programs) which support balance of payments objectives.

This fiscal year we are moving, where appropriate, to sectoral loans and grants for new obligations. For example, rather than providing additional funding in FY 1982 to individual projects within our decentralization portfolio, e.g., Basic Village Services 263-0103, or Decentralization Support Fund 263-0143, we are clustering all such projects in a single program called the Decentralization Sector Support Program. This not only responds to Egyptian concerns, but will also provide a forum in which the larger policy issues related to decentralization can be pursued.

Additional sectoral loans and grants are being developed for technical assistance in energy and production credit. We also are considering broader sector activities or budget financing in support of economic reform actions the Egyptian government has indicated it expects to adopt.

## EGYPT: NEED FOR NEW ASSISTANCE

Senator Kasten: While I was in Egypt, I heard expressions of need for our assistance in providing them with modern avionics for some of their Soviet aircraft, and for Tacoma class ships for their Navy. What is our view of the priority of these needs, and do you expect any action on either of these items in the near future?

Mr. Buckley: The Government of Egypt has expressed interest in patrol boats for sometime and has explored possibilities on the commercial market, including a potential sale of over $300 million with Tacoma. We have not received a specific request to approve any sale, but would have no policy objection to doing so. There is no FMS available for Egypt until 1984 since Egypt has recently earmarked the balance of its FY-82 and FY-83 FMS credits for the purchase of 40 F-16 aircraft and M60A3 tanks in addition to scheduled progress payments for other equipment already ordered.

We have received no request from the Government of Egypt for assistance on the avionics for MIG aircraft. We understand that a number of U.S. and other contractors have discussed a number of programs to extend the life of Egyptian MIG assets and that Rolls Royce is reengining a number of MIGs. Our impression is that the Government of Egypt has more of an interest in extending the life of its SU-7 fighter, a program which would exceed $100 million for structural and engine changes. Again Egypt is limited by lack of FMS availability until FY-84.

## EGYPT: DEOB/REOB AUTHORITY

Senator Kasten: Last year the Administrator of the Agency for International Development, in my office, talked to me about the possibility of Congress providing A.I.D. with deob/reob authority. I indicated to him at that time that I felt the subcommittee would do so. We have not, however, received such a request, and we are now thinking about going ahead and providing you with such authority.

What is your view of the necessity for deob/reob authority, especially as it relates to Egypt?

Mr. Buckley: The Administration is very interested in mechanisms such as deob/reob authority to enhance its ability to manage assistance programs. A.I.D. discussed deob/reob authority with this committee last year, and has had continuing discussions with members and staff since then. The principal problem is that funds made available through deob/reob are considered to be new budget authority by the Congressional Budget Office and OMB and count against the relevant fiscal year's appropriation request. This being so there appears to be little value in obtaining deob/reob authority per se, since it would require an offsetting reduction of new funding to maintain overall budget levels.

A major objective behind the deob/reob authority request, however, could be accomplished if, in the future, the Committee approved the Administration's request, particularly for Egypt, that ESF funds appropriated for Fiscal Year 1983 remain available until expended. Such "no year" authority would permit A.I.D. to deobligate projects funded with no-year money in future years with the assurance that such funds would be available for reobligation for similar projects. The President's request that ESF funds for FY 1983 be made available on a no year basis is set forth on page I-D5 of the Appendix to the fiscal year 1983 budget.

We would strongly recommend that the committee consider enactment of this authority, particularly for Egypt.

## U.S. - IRAQ RELATIONS

Senator Kasten: There are a number of people, both here and in the Middle East, who believe the time is right for the United States to make some kind of a goodwill gesture -- perhaps through other channels -- toward Iraq. The belief is that an Iranian victory in the Iraq/Iran war would be disastrous to all of our friends in that area, and because of Iraq's disgust with the Soviet Union, some kind of gesture on our part would bear fruit.

What are your views on this?

Mr. Buckley: Our policy throughout the war has been to avoid taking sides in the dispute, to encourage a prompt end to the fighting, and to urge the combatants to negotiate a solution which maintains the independence and territorial integrity of both states. As part of our policy of neutrality in the conflict, we have not approved the supply of U.S. military equipment to either side. We have no plans to abandon this policy now, nor do we believe that it would be in our interest to do so.

From the start of hostilities twenty months ago, we have sought to meet the security needs of our friends in the region who may be threatened by the conflict or its outcome. The deployment of U.S. AWACS to Saudi Arabia early on in the conflict was but one such measure toward that objective. We continue to look at, and hopefully provide for adequately, the needs of our friends in the

Persian Gulf to help insure their security as well as that of Gulf oil supplies which are, of course, essential to the economies of the free world.

Over the past few years, the U.S. has indicated its readiness to re-establish full diplomatic ties with Iraq, in addition to our desire to improve relations in general. While commercial relations have expanded and our political dialogue with Iraq has improved, the Iraqis have stated that normal relations with the U.S. are not possible until we adopt what they call "a more neutral" policy toward the Arab-Israeli dispute.

Iraq began the process of reducing its dependence on the Soviet Union well before the conflict with Iran. Although the Soviets may well have given Iraq further cause during the conflict to reduce its dependence, we believe that Iraq's objective is to develop a policy more consistent with its role as chairman of the Non-Aligned Movement, a position it is scheduled to assume in September, rather than substituting the U.S. for the U.S.S.R.

## JORDAN'S ROLE IN MIDDLE EAST PEACE PROCESS

Senator Kasten: It is obvious that Jordan is a key to future progress in Middle East peace plans. Do you think we are doing everything we can to encourage Jordan, politically and otherwise, to join in this process?

Mr. Buckley: Jordan has a crucial role to play in peace-making in the Middle East. That is why Jordan is invited to be a partner in Camp David.

We never miss an opportunity with the Jordanians to urge them to join Camp David, and we never fail to recommend that they continue to play their moderating role in the region. Jordan has taken risks for peace in the past, and King Hussein has shown himself willing to deal positively with the related problems of peace and security in the region. This is why our positive dialogue with the Jordanians is so important to us.

## SUDAN'S ECONOMIC REFORMS

Senator Kasten: The Administration's request reflects a growing relationship with Sudan, largely because of that country's strong leadership in the Middle East peace effort, and, of course, because of its great need for economic assistance. Two questions: First, is Sudan making the necessary adjustments for IMF assistance and other multilateral assistance? And, second, what is the situation with respect to Libyan harassment of that country?

Mr. Buckley: Prior to approval of the International Monetary Fund's standby arrangement, Sudan implemented a broad range of reforms including an 80 percent devaluation, elimination of most consumer subsidies, and tax measures designed to reduce consumption of luxury goods and stimulate exports. In addition, in conjunction with World Bank projects, Sudan has reallocated the production costs in the cotton sector to restore incentives to individual efficient producers. Implementation of these measures enabled the IMF's Executive Board to approve a $220 million, one year standby arrangement which the United States supported and believes will begin to revive the Sudanese economy. World Bank loans have also been disbursed in conjunction with reforms, particularly in the agricultural sector. Additional macro and micro economic reforms will be necessary to ensure continued economic recovery and additional international assistance.

## LIBYAN HARASSMENT OF SUDAN

In response to your second question, there is strong evidence that Qadhafi remains committed to trying to overthrow the Sudanese Government. Though the threat of a direct military attack has greatly subsided since the Libyan withdrawal from Chad last fall, Libya continues to promote subversive efforts directed against Sudan. Libya's new ties to Ethiopia have enhanced the danger to Sudan, which shares a 1,000 mile border with Ethiopia.

## U.S. ASSISTANCE TO KENYA

Senator Kasten: We have received reports of worsening economic conditions in Kenya. Do you believe your request for that country is sufficient in light of those reports?

Mr. Buckley: Our request for Kenya was carefully reviewed and took into account the economic difficulties facing Kenya. The Kenyan Government has adopted a number of measures recently in conjunction with multilateral institutions and bilateral donors to improve domestic economic performance. We believe that the increase in U.S. assistance that we have already requested, along with assistance from other donors, will provide sufficient support to the Kenyan Government's effort to reverse the pessimistic trends in Kenya's economy.

## THAILAND

Senator Kasten: Last year the subcommittee included report language recommending "that the Administration consider extending repayment terms on military assistance to Thailand." It recommended this because of Thailand's key position as a front-line state facing 200,000 Soviet backed Vietnamese troops along its Cambodian border. Moreover, the Thai Government faces serious debt servicing problems. What has been your response to this recommendation? Are you going to provide them with better terms?

Mr. Buckley: In this year of budget stringency we have not been able to extend the repayment terms on FMS credits to Thailand beyond the five-year grace period and seven-year repayment period authorized for FY 1981. However, because of Thailand's special situation, we are apportioning $4.5 million in MAP grant funds to Thailand for FY 1982, which will have the effect of lowering the overall impact of the standard interest rates on the $62.5 million of FMS credits this year.

## PHILIPPINES - ESF

Senator Kasten: It has been brought to our attention by staff of the Senate Foreign Relations Committee that Economic Support Funds (ESF) which were provided to the Philippines in either fiscal year 1980 or 1981 may not have been properly used, in that some $18 million were put into an interest bearing account, accruing only to the benefit of the Philippines.

Do you know anything of this problem, and what the status is?

Mr. Buckley: The $18 million in FY 1980 ESF funds provided to the Philippines for elementary school construction is being properly used. As of April 30, 1982, virtually all the project school buildings had been constructed.

As you know, President Carter pledged, at the time of 1979 Amendment to the Military Bases Agreement with the Philippines, and subject to appropriation, that the United States would provide $200 million of ESF during the period FY 80 - FY 84. Under procedures that have been used since then, development projects have been jointly designed and approved by the two governments. The United States annually transfers dollars to the Philippine Government in the amount of the estimated peso costs of that year's projects, and the Philippine Government in turn appropriates an equivalent amount of pesos which is provided to those projects.

Through this process the United States accomplishes two objectives: satisfying the Presidential commitment made in 1979 and funding mutually agreed upon development projects. The United States required the Philippine Government to place its pesos in a special account to ensure that the pesos would be available as needed for the agreed projects. While in the special account, the government's pesos earned interest. Since the funds involved did not belong to the United States, it has no claim to the interest.

Perhaps it would be helpful to provide more detailed background information. As an adjunct to the 1979 Amendment to the Military Bases Agreement with the Philippines, the United States undertook, interalia and subject to Congressional appropriation, to provide $200 Million of ESF assistance over a period of 5 years.

In July 1980, the United States Government and the Republic of the Philippines entered into an agreement under which the United States transferred $18 million of ESF funds to the Philippine Government which in turn agreed to use an equivalent amount of its own pesos to finance the construction of approximately 850 three-rooom elementary schools and 12 ten to eighteen room elementary schools in the Philippines. The purpose of this agreement was to satisfy partially the United States commitment made at the time of the 1979 Amendment to the Military Bases Agreement, and to ensure support for the Philippine Government's school construction program. As of April 30, 1982, all three-room schools were completed and 11 to 12 larger schools were completed. In fact, 25 to 35 additional three-room units may be financed out of savings realized during construction. Furnishings had been provided to 400 of the schools. Satisfactory progress toward project completion is being achieved.

In response to a draft A.I.D. audit recommendation, the A.I.D. General Counsel's office ruled that "no interest was earned on the funds owned by the United States and paid to the Grantee. The A.I.D. grant was made in dollars. The interest at issue was earned on pesos owned by the GOP prior to transfer of the dollars by the United States, and the pesos continued to be owned by the GOP after the pesos were transferred into the special account. The United States did not purchase or acquire those pesos. Rather, the United States required the GOP to use its own pesos for mutually agreed purposes.....In conclusion, A.I.D.'s sole purpose with respect to the GOP-owned pesos was that pesos be available at the appropriate time to finance elementary school construction. I understand that this purpose has been substantially accomplished. The GOP's earning interest on its own money in the interim was not, nor should it have been, precluded by A.I.D. The critical point is that the pesos always were part of the GOP's revenues and not currencies appropriated by the United States or currencies purchased with United States dollars."[1]

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[1] Memorandum from AID's GC/ASIA to Inspector General Beckington, April 1982.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### ISRAELI POLICY ON FUTURE OF WEST BANK

Senator Inouye: Mr. Secretary, I would like to ask a few questions relating to the Camp David process, autonomy negotiations, and security assistance. In a May 1981 article which appeared in Commentary, Menahem Milson, who has subsequently been appointed by the Begin government as Civil Administrator for the West Bank and Gaza, wrote "The separation between the West Bank and the East Bank is artificial and potentially explosive." Can this be regarded as the Begin government's position with regard to the destiny of the West Bank?
Does it imply a federation of the West Bank and Jordan in a single political entity? Has the Government of Israel advanced this position in the autonomy negotiations?

Mr. Buckley: Under the Camp David Accords the final status of the West Bank and Gaza is to be determined through negotiations between Israel, Egypt, Jordan and representatives of the inhabitants of those territories. The final status negotiations are to begin not later than the third year of a five-year transition period that is to start with the inauguration of self-governing authority in the West Bank and Gaza. We are presently engaged with Israel and Egypt in negotiations to determine the arrangements that will obtain during that transitional period. Israel is committed to the Camp David process, and therefore to negotiations concerning the future status of the West Bank. The policy of the present Government of Israel, as set forth in its coalition agreement, is that "at the end of the transition period, set down in the Camp David Agreements, Israel will raise its claim, and act to realize its right of sovereignty" over the West Bank and Gaza.

### FIRING OF WEST BANK MAYORS

Senator Inouye: Under the direction of Menahem Milson, the Begin government has fired the mayors of three West Bank cities and has advanced proposals for the creation of "village leagues."

Does the Administration approve of these actions? Does the Administration view these mayors as having been duly elected?

Mr. Buckley: Municipal elections were held in the West Bank in 1976. We have always regarded the Israeli decision to permit free municipal elections at that time as reflecting a progressive policy. Consistent with this position, we regret the removal of elected municipal officials on the West Bank. We remain convinced that the best way to assure the politically responsive representation of the inhabitants of the West Bank and Gaza is through the free election of a self-governing authority to replace the existing military government. Such elections are a central element in the autonomy agreement called for by the Camp David framework.

## LEGAL AUTHORITY TO DEPOSE MAYORS

Senator Inouye: Does the Administration believe that the Government of Israel has the legal authority to remove these mayors from office?

Mr. Buckley: The Fourth Geneva Convention (Article 54) recognizes the right of an occupying power to remove public officials from their posts. As I have noted above, we regarded Israel's decision to permit municipal elections in 1976 as helpful, and regret the removal of the mayors from office.

## CLOSING OF BIR ZEIT UNIVERSITY

Senator Inouye: An American citizen teaching in the English Department of Bir Zeit University in the Israeli-occupied West Bank has written to inform me that Bir Zeit has been closed by the Israeli authorities.

How does the Administration view this action?

Does this action raise tensions and complicate the atmosphere in which the autonomy negotiations are taking place?

Mr. Buckley: Bir Zeit was closed by the Israeli authorities in November following demonstrations at the school protesting the inauguration of a civilian administrator for the occupied territories. The university was permitted to reopen in January amid hope expressed by the university administration that the academic year could be completed without further disruption. In mid-February, however, an Israeli education official was injured in a melee on the university campus and Israeli authorities again ordered the school closed for a period of two months. It reopened in April and is functioning at present.

It hardly needs to be expressed that the U. S. supports the principle of academic freedom everywhere. In our view, politicization of the education process can only harm the interests of those who genuinely seek educational opportunities. It is unfortunate that in recent years the educational process at Bir Zeit and several other West Bank schools has so often been interrupted. Bir Zeit's reputation as a focus of nationalist activity and protest for West Bank youth and the determination of the Israeli authorities to deal firmly with such challenges has led to these cyclical confrontations. Such problems are likely to continue so long as the status quo prevails.

The tensions that create this situation can only be finally relieved in the context of a comprehensive resolution of the Arab-Israeli conflict that determines the ultimate status of the West Bank and Gaza Strip. We have urged all concerned in the present situation to exercise restraint and to avoid any actions that might elevate tensions.

## NEW ISRAELI SETTLEMENTS IN THE WEST BANK

Senator Inouye: Today The Washington Post reported the establishment of six new Israeli settlements in the West Bank. Prime Minister Begin is reported to have vowed that the Government of Israel will not dismantle settlements on the West Bank even in the event of a peace agreement covering that area.

How does the Administration view the establishment of these settlements? It appears that the Begin government has taken an action which is prejudicial to the oucome of the autonomy negotiations. Do you agree?

Mr. Buckley: The Administration's position on Israeli settlement activity in the occupied territories is well known. We regard such settlements as unhelpful to the peace process.

## EFFECT OF ISRAELI ACTIONS ON THE PEACE PROCESS

Senator Inouye: U. S. security assistance to Israel is designed to give Israel the "confidence to continue on the path toward peace begun at Camp David."

Does the Administration regard the actions I have cited--the discharge of the three mayors, the closing of Bir Zeit University and the establishment of new settlements as being on the "path toward peace begun at Camp David?"

Mr. Buckley: Clearly we regret any actions that raise tensions in the West Bank while the autonomy negotiations are in progress. For that reason we have urged all parties to exercise restraint.

It is only fair to point out, however, that Israel has demonstrated considerable flexibility in the negotiations leading to the Camp David Accords themselves and the Egypt-Israel Peace Treaty. Indeed, Israel has made significant sacrifices in the cause of peace, including the relinquishment of the occupied Sinai with its oil facilities and air bases and the evacuation, at a time of deep national anxiety, of the Sinai settlements. There is little question that steadfast U. S. support for Israel and our commitment to its security were major factors in helping Israel reach these difficult decisions.

## EXPRESSING U. S. VIEWS TO ISRAEL

Senator Inouye: Clearly, no one wants the U. S. to take any action which would directly threaten the security of Israel.

Is there not, however, some way the Administration can make it clear to the Begin government that we regard these actions as harmful to the Camp David process and to the prospects for peace? What would you propose?

Mr. Buckley: The U. S. government has followed with concern recent events on the West Bank and particularly the overall climate of violence which has developed in the occupied territories. We deeply regret the deaths and injuries which have occurred as the result of clashes between Palestinian demonstrators and Israeli troops and civilians there. We have publicly expressed these views and called upon all those with influence on the situation to exert their best efforts to prevent recurrence of these tragic incidents.

We have been particularly concerned by the use of lethal force to disperse demonstrators and the Israeli government is well aware of our views on this matter. Recently we have noted public statements by Israeli officials that indicate that serious consideration is being given to handling such disturbances in a manner that is less likely to cause serious injury to demonstrators.

## EGYPT: IMPLICATIONS OF CASHFLOW FINANCING

Senator Inouye: On April 22, the General Accounting Office reported to the subcommittee that Egypt, which had received $2 billion in FMS loan guarantees and credits through fiscal year 1981, had placed orders for U. S. equipment valued at over $3.5 billion. According to the GAO, this was possible because of the so-called "cash flow" authorization given to Egypt by the Administration.

Under what authority did the Administration provide this "cash flow" financing to Egypt?

Mr. Buckley: The decision to offer cash flow financing in the implementation of our FMS program for Egypt was one taken by the previous Administration under the provisions of the Foreign Assistance Act.

Senator Inouye: Is there any statutory requirement that the Administration inform the Congress or seek Congressional approval for any such cash flow financing arrangements?

Mr. Buckley: No, there is no such statutory requirement. However, the record indicates that the previous Administration did inform the Congress early in 1980, in connection with the FY 1981 budget request, of its intention to authorize cash flow financing for Egypt, just as had previously been done in the case of Israel. Subsequent consultations between the past and present Administrations and the Congress have included continuing discussion of the cash flow program and its implications.

Senator Inouye: Did you notify or consult with the Senate Committee on Appropriations before authorizing cash flow financing?

Mr. Buckley: As mentioned previously, at the time the previous Administration concluded that cash flow financing was an essential element in an effective military assistance program for Egypt, the Congress was immediately informed. Cash flow financing was not included as an element of the so-called peace package program approved by the Congress in FY 1979. Therefore, that notification first occurred in February 1980 when the Administration testified on the proposed FY 1981 budget. The FY 1981 Congressional Presentation Document on security assistance programs, while not using the word "cash flow", referred to the cash flow concept in stating that FMS funds would be used to meet "start-up payments" for new programs. This Administration likewise concluded that cash flow financing is a key element of our Egyptian military assistance program and has so informed the Congress in connection with both the FY 1982 and the current FY 1983 budget proposals.

Senator Inouye: If the Congress were to suspend all assistance to Egypt, would the Egyptian government be able to pay its contracted debt?

Mr. Buckley: Clearly, such an action would impose a heavy burden on Egypt which remains a poor country. However, Egypt's foreign exchange earnings are sufficient to meet its obligations. Moreover, the payment schedule under the cash flow financing program includes on a continuing basis funds to meet all anticipated termination costs should the program be cancelled for any reason. As a result there would be no loss to U. S. manufacturers if, in the hypothetical situation you have outlined, Egypt concluded that it must allocate its foreign exchange resources to non-military priorities.

Senator Inouye: Would you agree that this method of financing "places considerable pressure on the Congress to continue providing substantial levels of credit" to Egypt?

Mr. Buckley: As had been stated in earlier testimony, we have made it very clear to the Egyptian government that authorization of cash flow financing does not include any commitment to out-year funding levels. We have stated specifically that such levels are subject to authorization and appropriation by the Congress, on an annual or other basis as the Congress may decide.

To the extent that "pressure" exists, it stems not from the cash flow system but from the importance of the relationship which the United States enjoys with Egypt, the vital support which Egypt offers in pursuit of our key objectives of regional peace and security in the Middle East and Southwest Asia. The major support which we have provided over the past several years, both for Egypt's economic development and its military modernization, reflects not only the reality of Egypt's needs but the special nature of that relationship. Any action on our part to curtail that support could only be interpreted by Egypt as reflecting a reassessment on our part of the basic relationship.

## EGYPT: EQUIPMENT CHOICES

Senator Inouye: Since its peace treaty with Israel, Egypt has become the second largest recipient of U. S. military assistance.

Egypt has ordered some of the most modern and sophisticated equipment in the U. S. arsenal, including F-4 and F-16 fighter aircraft, M-60A3 tanks, Improved Hawk air defense batteries, and armored personnel carriers.

Can Egypt effectively maintain and operate this equipment?

Mr. Buckley: With appropriate training and experience, we believe Egypt will be fully capable of absorbing and utilizing this equipment. Its performance in maintaining much of its current Soviet hardware despite the cutoff of support and spare parts has been remarkable. There have been problems with our F-4 program, reflecting the speed with which these aircraft were delivered in 1979/80, a pace which precluded the full range of parallel training and development of support capabilities. Subsequent programs--e.g., the F-16 sale--have been carefully structured to match training and support with deliveries. This is not to say that there will not be initial problems with the new equipment. Every military establishment experiences such difficulties. But we believe that the Egyptian military will be able to overcome these problems and work effectively with the items we are providing.

Senator Inouye: Is it fair to say that some of this equipment has served more of a political purpose than a military one?

Mr. Buckley: No, I believe that is a distortion of the record. Clearly political factors have on occasion played a role in equipment choices. As an example, both we and Egypt believed it important to demonstrate in the immediate wake of the Egyptian-Israeli Peace Treaty our readiness to help Egypt meet its urgent military modernization requirements. First among these was the need for high performance aircraft. The F-4 met that need and had the additional benefit that it could be made available in the very near term from U. S. Air Force active units, in the process of transition to new aircraft. Other options involved either a lesser performance aircraft or long lead times, in either case failing to demonsrate our immediate support for Egypt's real needs.

Overall, Egypt's equipment choices--choices made from a long list of competing priorities beyond the scope of our immediate assistance--have made sense militarily and are contributing to the gradual modernization effort.

Senator Inouye: How do you view the concern that this equipment could have unintended political effects?

Mr. Buckley: We have certainly done our best to anticipate the impact of our military assistance program both militarily and politically within Egypt and in the region. We have done this in close consultation with the Egyptian authorities. To date, in our view, that effort has been successful.

Senator Inouye: What safeguards does the U. S. have on the use of this equipment?

Mr. Buckley: The same safeguards apply in the case of Egypt as they do with all sales under the FMS program. The equipment is intended for Egypt's use in its own defense. It cannot be used for offensive purposes outside of Egypt or transferred to other nations without our specific approval. Above and beyond these legal safeguards, we enjoy the closest consultations with Egypt and largely shared perceptions of problems and concerns in the Middle East region. We have every confidence that U. S.-Egyptian policy will remain in close harmony.

Senator Inouye: Once Egypt becomes militarily powerful, what is to prevent it from abandoning the Camp David process?

Mr. Buckley: Egypt's commitment to the Camp David process, which has survived bitter attacks from the Arab world and the assassination of President Sadat, rests on that nation's own assessment of its basic national interests. The Egyptian people have clearly supported the conclusion of their leaders that these interests demand not only peace with Israel--the end to thirty years of war--but an on-going effort to achieve a broader peace. Only thus can Egypt turn its attention to the needs of its own people and to meeting effectively the prevailing outside threats to the region. Egypt has demonstrated its willingness to pay a substantial price in pursuit of these objectives. We have every confidence in its continuing commitment to them.

Our military assistance program is intended to modernize and replace only a portion of Fgypt's military equipment. While the objective is clearly to enable Egypt to have an effective military establishment, capable of its own defense and bolstering its role as the strongest moderate state in the region, the end result will be a leaner, trimmer, less powerful establishment than existed in 1973.

## ROLE OF PALESTINIANS

Senator Inouye: As you have noted, over 53 percent of the entire FY 1983 security assistance program will be directed in support of our Middle East objectives.

You have also stated that, "No peace is possible unless the nations of the region are secure from outside coercion, and security will not be achieved if we fail to address the underlying sources of conflict and instability."

I could not be in greater agreement with you. However, it appears that the Administration, while dramatically increasing the levels of assistance to countries in the Middle East, has failed to address one of the underlying sources of conflict and instability. I refer, of course, to the legitimate aspirations of the Palestinian people.

How will this Administration address this underlying source of conflict and instability?

Mr. Buckley: Our efforts to address the Palestinian issue are centered on fulfilling the provisions of the Camp David Accords. The Camp David Accords directly address the issue of Palestinian aspirations. They provide for the resolution of the Palestinian issue "in all its aspects" and make clear that the solution from the negotiations regarding the West Bank and Gaza must "recognize the legitimate rights of the Palestinian people and their just requirements."

As a full partner with Egypt and Israel, we now intend to pursue the autonomy negotiations with the same vigor and commitment which brought peace between Israel and Egypt. Israel's withdrawal from Sinai marked a milestone in the search for a comprehensive settlement of the Arab-Israel conflict and the fulfillment of one element of the Camp David Accords.

We are aware that, for the next stage to succeed, it must produce results which fulfill the promise the Accords hold for the Palestinian people. The Camp David Accords are based upon UNSC Resolutions 242 and 338 and upon Israeli and Egyptian agreement that the Palestinian issue has both a political and a territorial dimension. We believe they address the issue of the Palestinian aspirations in a meaningful and just manner and offer Palestinians an opportunity that they should not forego.

## TURKEY AND CYPRUS

Senator Inouye: You have stated that, "A militarily and economically stronger Turkey cannot only contribute significantly more to a strengthened NATO deterrent, but can move more rapidly to the full return of civilian government."

Does the Department of State have an estimate of the cost to the Government of Turkey of maintaining troops on Cyprus?

Mr. Buckley: The cost to the government of Turkey of maintaining about 20,000 troops in the northern area of Cyprus is minimal. There may be some transport costs beyond what would be incurred if the troops were based in Turkey, but apart from that, the added expense is negligible.

Senator Inouye: Would the withdrawal of Turkish troops from Cyprus not be a significant contribution to a strengthened NATO deterrent?

Mr. Buckley: Turkey maintains a force of about 20,000 troops in northern Cyprus, out of its total armed forces of about 600,000. In view of the small percentage of its armed forces stationed on Cyprus, we do not see their return to Turkey as significantly strengthening the NATO deterrent.

Will you elaborate on the statement that, "The Administration believes the security assistance requested for Turkey for FY 1983 is fully compatible with the goal of a prompt and peaceful settlement of the situation in Cyprus?"

Mr. Buckley: The UN-sponsored intercommunal talks on Cyprus are closer to being real negotiations than they have been in the past. The introduction of the UN "evaluation" of the intercommunal negotiations in November 1981 provides an historic opportunity for the negotiators to focus on the important issues which divide them.

We believe that these steps towards resolving the Cyprus problem are at least partly attributable to the excellent relations between Turkey and the United States. The Turkish government has displayed considerable interest in promoting a settlement and has spoken frankly to the Turkish Cypriots to stimulate the intercommunal dialogue. We believe the Turkish government will continue to encourage flexibility by the Turkish Cypriots. Thus we believe our FY 1983 security assistance request for Turkey is fully compatible with our goal of a just and lasting solution to the Cyprus problem.

## TERMS FOR TURKEY

Senator Inouye: I believe that Turkey is a prime example of a country which could not meet its repayment obligations, if additional FMS loans were provided at market interest rates. I would note that Turkey's foreign debts were rescheduled in 1980 to keep it from defaulting.

What terms does the Administration propose to offer Turkey in fiscal year 1983, both on FMS and Economic Support Fund programs?

Mr. Buckley: For FY 1983 FMS loans we plan to offer Turkey ten years grace period and twenty years for repayment of principal, the longer periods specifically provided for in security assistance legislation. In addition we plan to provide $300 million out of $465 million FMS as low interest direct credit loans, which constitute an important element of concessionality in the total security assistance program. More than two-thirds of the Economic Support Funds provided will also be in the form of grants. The terms for the remaining loans are five percent interest with five years grace and fifteen years for repayment of principal.

## TURKEY: FMS

Senator Inouye: By 1984, Turkey will owe over $200 million per year for interest and premium payments on existing U. S. FMS loans. What assurance does the Administration have that Turkey will be able to meet these debts when they come due (even if additional loans are provided at concessional rates)?

Mr. Buckley: Turkey has made significant progress towards economic recovery as a result of the stabilization program it established in 1980 in close coordination with the IMF, World Bank, and OECD: exports increased about 60 percent in 1981; inflation has fallen from over 100 percent in 1980 to around 30 percent. While Turkey will continue to require external assistance and concessionary terms for FMS purchases for the next few years, the outlook for recovery from the economic crisis of the late 1970's is now encouraging.

We believe that U. S. and other Western support for Turkey's efforts to maintain momentum towards self-sustaining economic growth constitutes the best assurance that Turkey will have the resources to meet its debt service payments in the years to come.

Senator Inouye: Will Turkey find it necessary to use Economic Support Fund monies to meet its FMS debts? Does this not become a shell game, where we pay Turkey to pay us?

Mr. Buckley: Our Economic Support Funds are provided to Turkey in support of current economic and financial requirements. We and other OECD nations have pledged a total of over $3 billion since 1979 in grants, loans, and trade credits in support of Turkey's overall economic recovery program. Turkey meets its debt service payments from export and other external foreign exchange earnings, which we expect will continue to increase as Turkey's economic stabilization progress gains momentum.

## PAKISTAN -- NUCLEAR PROBLEM

Senator Inouye: The Department of State overview entitled "International Security and Economic Cooperation Program -- Fiscal Year 1983" declares, "One of the most critical challenges our nation faces is the need to prevent nuclear weapons proliferation." Furthermore it states, "U.S. assistance can contribute to preventing the spread of nuclear weapons by helping establish U.S. influence..."

In view of the Administration's proposed assistance to Pakistan, can you now report to the subcommittee that Pakistan is no longer seeking to develop a nuclear explosive capability?

Mr. Buckley: The Administration's non-proliferation strategy is based on addressing over time the basic security concerns which have motivated Pakistan's nuclear program. We are still in the very beginnings of developing a new relationship. (The first project agreement under the economic assistance program was signed only last month, and the military sales credits will not become available until next fiscal year.) It is obviously too early to draw any definitive conclusions as to how our new security relationship is impacting on Pakistan's nuclear program.

President Zia has assured us that Pakistan does not intend to make nuclear weapons. Although we have no such assurance in regard to a so-called "peaceful" nuclear explosion, Pakistan understands fully that we do not make a distinction between nuclear weapons and "PNEs". Senior Pakistani officials are also entirely aware that any nuclear explosion by Pakistan would have the most serious consequences for our relationship.

## U.S. INFLUENCE IN PAKISTAN

Senator Inouye: The Administration is proposing to provide some $450 million in economic and military assistance to Pakistan in fiscal year 1983. (As an aside, I would note that this is more than the entire amount proposed by the President for assistance under the Caribbean Basin Initiative.)

What influence has the U.S. derived in Pakistan as a result of its agreement to provide assistance?

Mr. Buckley: The rationale for providing assistance to Pakistan is not simply to acquire influence. We already share with Pakistan an overriding policy interest: resistance to Soviet adventurism through strengthening the security and stability of Southwest Asia. Our primary goal is a stable, economically strong and militarily self-reliant Pakistan which will not be prey to external coercion or subversion from the Soviet Union.

While we remain in the initial stage of our new, more cooperative relationship with Pakistan, we believe that a more constructive environment is being created for our continuing dialogue with Pakistan on important issues such as non-proliferation, narcotics and Pakistan's economic development policies. We are particularly gratified by increasing evidence of greater awareness by Pakistan of the need for more vigorous enforcement against production and trafficking in narcotics within Pakistan.

## PRIORITY OF PAKISTAN PROGRAM

Senator Inouye: The overview I mentioned a moment ago also states that the fiscal year 1983 program "represents a significant step forward in the fundamental reassessment of our foreign assistance priorities which the Administration is taking."

From this statement, am I to understand that the Administration regards U.S. interests in Pakistan as having a higher priority than our interests in the Caribbean? Why?

Mr. Buckley: Such an assumption would be incorrect. The United States has very important interests in both areas which are seriously threatened at this time. It is for this reason the Administration has requested substantially increased funds for both Pakistan and the Caribbean Basin.

## ARMS TRANSFER POLICY

Senator Inouye: Mr. Secretary, in our hearing last year, you said you were "not yet prepared to discuss with the committee in detail our policy approach to conventional arms transfers..." Are you now in a position to do so?

Mr. Buckley: Indeed, I was pleased to appear before the Senate Foreign Relations Committee this last February 5 to discuss in depth the Administration's arms transfer policy. I pointed then to the steady increase in Soviet arms transfers to the Third World over the last decade. As I stated then, in recent years the Soviets have been the largest source of arms for Third World countries, exceeding U. S. arms deliveries in virtually every major arms category, sometimes by two or threefold and more. We have seen that Soviet arms are the life's blood of Soviet aggression by proxy. In recent years again, the Soviets and their proxies have repeatedly used force or the threat of force to expand their influence and frustrate peaceful change. It is within this strategic context that the Administration has seen fit to devise a new conventional arms transfer policy to supplement our own defense buildup and our foreign assistance efforts.

We appreciate the fact that arms are only a small part of any solution. Underlying economic and political problems will not disappear because a country has arms. Nonetheless, there is a constructive role for a sound and well-considered arms transfer policy.

Carefully crafted decisions on arms transfers promote our national interests in three general ways. First, by helping others to help themselves, we allow them to undertake responsibilities in strategic areas that our forces might otherwise have to assume alone. Second, by supplying others with modern equipment and compatible facilities, we complement the capabilities of our forces, should they have to act. Three, by proving ourselves a sensitive and reliable supporter, we strengthen our ties with allies and nations that share our concerns.

President Reagan's flexible, case-by-case arms transfer policy would look favorably on a sale that furthers our security in these ways. At the same time, however, our policy requires that we take into account other conditions which would argue against a particular transfer. For example, we would question any transfer which might disrupt relations within a region, overburden a nation's economy, strain the capacity of its military, compromise critical technology, or support violations of basic human rights.

Senator Inouye: I am very concerned with this issue, because it appears that arms transfers have become the primary instrument of U. S. diplomacy.

What is the Administration's policy with regard to the initiation of arms sales to countries which were not receiving arms when the Administration took office? Which countries have received arms under this policy?

Mr. Buckley: The Administration's policy with respect to all requests for arms purchases, which is the necessary first step in any initiation of arms sales, is simply this: We will review all such requests for arms transfers on a case-by-case basis, in accordance with the factors listed in the President's directive on conventional arms transfers. Among the factors we consider are the threat facing the proposed recipient, U. S. interests in the sale and the ability of the country to finance, operate and maintain the weapons system transferred. We believe these factors represent a coherent body of directional indicators of where we want to go and what we want to do to assist friends and allies. All transfers approved since inception of the policy--even those deemed somewhat controversial have conformed to the policy's guidelines. Even the decision to sell AWACs aircraft to Saudi Arabia, consideration of which antedated establishment of the policy, was consistent with our perception of U. S. interests.

Senator Inouye: Has the volume of arms sales increased under the Reagan Administration? How much has the volume increased?

Mr. Buckley: There has not been a significant real increase in volume. The largest single sale actually signed this year is the $2 billion sale of F-18 aircraft to Australia; that was in early December. Since the beginning of January, there have been only fourteen "major" cases accepted by foreign customers valued at about $1.4 billion. One of those cases was, for example, an $800,000 case for artillery ammunition for a NATO ally. With the year over half gone, we are at less than half of the projected $25 billion for FY 1982. What we are seeing is an increase in the number of sales--particularly in the first quarter of FY 1982--that were, in effect, holdovers from the extraordinarily low sales total of the first year of the Administration, which was only $8.5 billion.

Senator Inouye: Has the Administration placed any new restraints on the sale or transfer of arms? Do you think any additional restraints are called for? Has the Administration denied any specific requests for arms?

Mr. Buckley: The Administration has not placed additional restraints governing the sale or transfer of arms nor does it believe that limitations beyond those outlined in the President's directive on arms transfer are called for. This Administration has stated it views arms transfers very simply: they are for the purpose of advancing U. S. national security and foreign policy interests. They are to be used to help friends and allies to defend themselves and, in this manner, they complement and supplement our efforts to strengthen our own defense.

We are satisfied that our arms transfer policy provides the kind of framework within which we can make decisions on arms transfers furthering our interests.

## COSTA RICA: SUPPLEMENTAL ASSISTANCE AND THE IMF

Senator Inouye: As part of the Caribbean Basin Initiative, the Administration has proposed $70 million in economic assistance for Costa Rica. We have been informed that this assistance will be provided only in the context of an International Monetary Fund stabilization program.

Has Costa Rica agreed to an IMF stabilization program?

What are the prospects for early agreement?

Mr. Buckley: A three-year Extended Fund Facility was negotiated in June, 1981 for $305 million (276.75 million SDR). Costa Rica is out of compliance with that agreement. The new Government which took office May 8 is initiating new negotiations and an IMF team is scheduled to visit Costa Rica in June. We are hopeful that the IMF and Costa Rica can negotiate a stabilization agreement within the next two to three months.

## COSTA RICA: DISBURSEMENT OF EARMARKED $20 MILLION

Senator Inouye: Has the Administration disbursed any of the $20 million provided by the Congress to Costa Rica under the fiscal year 1982 appropriations bill?

Does disbursement of these funds also await an IMF stabilization program?

Mr. Buckley: No funds have yet been disbursed. It has been our position that it is necessary to ensure that effective stabilization policies are being put in place before disbursing our funds. Those policies are now being worked out by the new Government's economic team and are key elements in the negotiations between the IMF and the Government of Costa Rica. Therefore, we are moving ahead to use the $20 million in an economic stabilization and recovery loan to provide urgently needed foreign exchange and credit to the private sector. We would hope to be in a position to disburse the money shortly.

## COSTA RICA: FY-83 ASSISTANCE AND THE IMF

Senator Inouye: The Administration has also proposed $60 million in economic assistance for Costa Rica in fiscal year 1983.

I assume this funding, if appropriate, will not go forward in the absence of an IMF agreement. Is that correct?

Mr. Buckley: Yes, that is correct. We continue to believe that only in the context of an internationally accepted stablilization program can our financial assistance help Costa Rica to achieve lasting economic recovery.

## COSTA RICA: REPROGRAMMING IF ASSISTANCE

Senator Inouye: Can you assure the Committee that funding justified for Costa Rica will be held in reserve until there is an IMF agreement and not reprogrammed elsewhere -- say, to El Salvador?

Mr. Buckley: We believe it is very important for Costa Rica and the IMF to agree on an economic stabilization program, which is crucial in order for Costa Rica to regain the confidence of the international financial community. We have no intention of using this funding elsewhere, because the need in Costa Rica is so great.

## COSTA RICA: MILITARY ASSISTANCE

Senator Inouye: Yesterday's Washington Post carried an article describing the deteriorating economic situation in Costa Rica--a situation which could lead to political turmoil.

Is the Administration contemplating the provision of military assistance to Costa Rica?

Has the Administration held discussions regarding the supply of military assistance or small arms with the Government of Costa Rica?

Mr. Buckley: As you know, Costa Rica has no military forces. The defense responsibility is vested in the civil guard, a 4,000 man force that, with one exception, has changed personnel every four years with each incoming Administration.

In 1981, a small ($30,000) IMET program was begun to assist Costa Rica upgrade its search and rescue and border patrol capabilities. The proposed 1982 assistance level was increased to $50,000, with the idea of providing similar training to additional personnel. In our FY 1983 budget request we are seeking $150,000 for training.

Costa Rica is facing a difficult period of economic adjustment. It also faces for the first time a small terrorist movement, and encroachments into its territory from neighboring Nicaragua. The new Administration in Costa Rica will obviously have to assess its defense requirements in light of these developments.

## SUBCOMMITTEE RECESS

The subcommittee will stand in recess until Tuesday, May 4.

[Whereupon, at 5:05 p.m., Thursday, April 29, the subcommittee was recessed to reconvene Tuesday, May 4.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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TUESDAY, MAY 4, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 10:30 a.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## DEPARTMENT OF THE TREASURY

### SECRETARY OF THE TREASURY

### MULTILATERAL DEVELOPMENT BANKS

### STATEMENT OF HON. DONALD T. REGAN, SECRETARY OF THE TREASURY

### ACCOMPANIED BY HON. MARC E. LELAND, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

### OUTLOOK FOR FOREIGN ASSISTANCE APPROPRIATIONS

Senator KASTEN. The subcommittee will come to order.

This morning we will receive testimony from the Secretary of the Treasury, Hon. Donald T. Regan, in support of the administration's budget request for the multilateral development banks.

Mr. Secretary, I don't think I need to tell you that this is a particularly difficult year for the budget generally, and I am afraid it is going to be specifically difficult for foreign assistance and even more particularly the programs we are going to discuss this morning.

Surely, many will expect under these circumstances that we have to hold the line on foreign assistance; and, as you know, foreign assistance for multilateral institutions is particularly difficult—the administration is requesting appropriations which are nearly $300 million above the current fiscal year—a task which is going to be all the more trying given the fact that the administration is seeking reductions in a number of domestic programs.

We will work with you and try to get levels which will insure a sound and adequate foreign assistance program, but you must be willing and ready to make some hard choices on a number of items when the time comes.

Mr. Secretary, we understand your prepared statement will be submitted for the record. I also understand that you have an abbreviated form of the statement you would like to present orally.

I want to say that we are happy to have you here. I look forward to your statement.

## OPENING REMARKS BY SECRETARY REGAN

Secretary **REGAN**. Thank you, Mr. Chairman. I welcome this opportunity to appear before you to discuss the administration's fiscal year 1983 budget proposals for the multilateral development banks.

As you know, last year's foreign assistance appropriations bill was the first enacted in 3 years. The administration attached considerable importance to this legislation, and we recognize and very much appreciate the constructive role played by you, Mr. Chairman, and by the members of this committee, throughout the process leading up to its enactment.

We also value highly the frank and informative, bipartisan dialog we established with Members and staff of the Congress during the preparation of our recently released report assessing future U.S. participation in the MDB's.

Mr. Chairman, I will, with your permission, limit my opening remarks to an abbreviated version of the statement I am submitting for the record.

## FISCAL YEAR 1983 APPROPRIATION REQUEST

For fiscal year 1983 the administration proposes $1,537 million in budget authority and $2,361 million under program limitations for subscriptions and contributions to the MDB's.

I would like to assure you that this proposal has been carefully scrutinized to fully reflect the administration's firm commitment to fiscal responsibility.

The total request represents an increase of $275,300,000 in budget authority and $20,700,000 under program limitations over the fiscal year 1982 appropriation.

With regard to the increase in MDB funding we are requesting, I would like to stress three points:

One, with the sole exception of the $50 million proposed for the African Development Fund, the fiscal year 1983 request is based on international arrangements negotiated by the previous administration. President Reagan has stressed the importance of the United States living up to these arrangements.

The U.S. contribution to the African Development Fund reflects our commitment to continue to support multilateral efforts to assist in the development of the world's poorest region.

Two, the main reason for the increase over the fiscal year 1983 appropriation is the proposed addition of $245 million for IDA, an increase which is directly traceable to this administration's decision to reduce contributions in the early part of the sixth replenishment and to make up the amounts later in the replenishment and to appropriation ceilings established by the Congress.

Three, in the longer term, the trend of U.S. contributions is clearly down. By fiscal year 1985 when the replenishments will have been largely negotiated by this administration, we plan total appropriation request levels of about $200,000,000 annually and accompanying amounts for callable capital subscriptions. This will entail a significant reduction in real terms in U.S. contributions to new, soft-loan window replenishments.

### ALLIED COOPERATION IN THE MDB'S

Since becoming Secretary, I have met regularly with my counterparts from key industrial countries. Our common long-term goal is to build and maintain an international economic system that is open, growing and characterized by increased efficiency and output. We hope and expect that such a system will encourage the development of democratic, pluralistic and free-market societies.

The MDB's represent one of the most visible and concrete examples of allied cooperation toward this end, not just cooperation for cooperation's sake but also because these institutions serve our common interests.

### THE ADMINISTRATION'S ASSESSMENT OF THE MDB'S

As you know, the Treasury Department has over the past year conducted an assessment designed to establish the necessary framework for future U.S. participation in the MDB's and to outline policy goals to be pursued.

Our conclusions underscore the role the MDB's can play as catalysts in the international economic system and as providers of sound economic advice.

### MDB'S COMPLEMENT BILATERAL ASSISTANCE

We can see an example of the catalytic role the MDB's can play close to home and in strong support of U.S. foreign policy goals.

The World Bank and the Inter-American Development Bank chair consultative groups for the Caribbean and Central America, respectively, which will complement the President's Caribbean Basin Initiative. In addition to providing a forum for donor coordiation, the MDB's are also expected to provide development assistance in the range of $700,000,000 to $800,000,000 annually to the region.

The fundamental decision in our assessment is to continue U.S. leadership in these programs and is based on our conclusion that U.S. foreign policy interests can be well served by the MDB's. Cost sharing and financial leveraging mean that the MDB's can provide significant resources at a relatively small direct budgetary cost to the U.S. Government.

The region adjacent to the Persian Gulf is of critical importance to U.S. interests. In 1981 seven key countries—Kenya, Pakistan, Mauritius, Seychelles, Somalia, Sudan and Oman—received $345,400,000 from U.S. bilateral programs. The MDB's more than matched that amount with $700,500,000.

The United States maintains basing arrangements in Kenya, Oman, Somalia, Thailand, and the Philippines. These five countries accounted for a total of $1,456.6 million in MDB lending in 1981. Our total bilateral program provided $396,000,000 to these same countries.

In seven countries of strategic importance to the United States in Africa—Botswana, Djibouti, Liberia, Sudan, Tunisia, Zambia, and Zimbabwe—U.S. bilateral economic and military assistance programs provided $247,000,000 in 1981, while the MDB's provided $426,100,000 in the same year.

For all 27 countries in the table that I have attached to my statement, all U.S. bilateral economic and military assistance programs provided $5,600,000,000 in 1981. If the MDB graduates—Israel, Oman and Spain—are omitted, the bilateral total is $3,300,000,000. The MDB's provided $3,800,000,000 to these countries.

The point that these statistics establish is that the MDB's—where the United States provides a fraction of the resources—are important complements to our bilateral assistance program.

## MDB EFFECTIVENESS

We are also convinced that the MDB's can use their resources more effectively. To this end, U.S. support for the MDB's will be designed to encourage adherence to free and open markets, emphasis on the private sector as a vehicle for growth, minimal government involvement, and assistance to the needy countries who demonstrate an ability to make good use of available resources by adopting appropriate domestic economic policies.

With regard to specific recommendations for improving MDB effectiveness, we will seek three primary goals:

The first is to have MDB lending programs increasingly emphasize attention to market signals and incentives, to private sector development, and to greater financial particiation by commercial banks, private investors and other sources of private financing. A critically important goal of the MDB's in the future will be to encourage the private sector to invest its own capital and expertise in sound projects.

A second goal is more selectivity and policy conditionality in MDB operations, in effect linking MDB lending to a recipient's pursuit of appropriate micro- and macro-economic policies. Financing for countries pursuing ineffective policies should be curtailed and, if circumstances dictate, terminated. The importance of efficient loan allocations is underscored by the fact that our assessment found indication that past MDB emphasis on lending targets had eroded MDB effectiveness in encouraging sound economic policies.

A third goal is to encourage the MDB's to adopt effective policies to "graduate" countries from the hard-loan windows when these countries have advanced to the point that they can rely fully on private capital flows. Similarly, countries that have achieved a requisite level of creditworthiness should "mature" from the soft-loan windows and borrow from the hard-loan windows as rapidly as their debt servicing capacity permits.

We are convinced that these policies which the United States is pursuing in the MDB's constitute a sound foundation from which economic development can be most efficiently promoted. I am also hopeful that they form an excellent basis for strong bipartisan congressional support for U.S. participation in these important institutions.

### CURRENT REPLENISHMENT NEGOTIATIONS

During the course of this year the administration will be negotiating replenishments for the hard- and soft-loan windows of the Inter-American Development Bank and the Asian Development Bank. We plan to participate fully in these replenishments, but we will insist on realism and restraint in future lending programs. Before this administration enters into any understandings, there will be thorough consultations with members of this committee and other interested members.

### PAID-IN CAPITAL SUBSCRIPTIONS

In replenishment negotiations for the Asian Development Bank and for the Inter-American Development Bank, we are suggesting the elimination of paid-in capital which would reduce the budgetary cost of U.S. participation in the MDB's.

Our analysis indicates that the impact on the financial integrity of the MDB's would be minimal and would be offset by relatively modest increases in financial charges.

The Congress would retain full control over callable capital subscriptions to the MDB's. No U.S. subscriptions to callable capital could be made without approval by the Congress in authorizing and appropriations legislation. Callable capital subscriptions could be made only to the extent that the Congress provides for program limitations in appropriations acts.

### U.S. INFLUENCE IN THE MDB'S

Some have asked how can we maintain sufficient influence to implement our policies when we are limiting our contributions to the MDB's.

The United States remains the largest contributor to the MDB's and our leadership position ensures that our views will be given serious consideration. We believe that our recommendations are sound, and that they reflect not only our national interests but also the common interests of the democratic, largely free-market-oriented countries who provide the major share of resources to these institutions.

These factors provide solid foundations for anticipating continued strong U.S. influence in these institutions. At the same time, the views and policy objectives of other countries must clearly be considered. However, we have generally been encouraged by the international reaction to our report.

While there have been significant expressions of disappointment at the proposed reduction in U.S. contributions to the soft-loan windows, members and MDB management have emphasized their willingness to work with us to improve MDB effectiveness. We are thus optimistic that we can, over time and with the cooperation of our partners, bring about many of the changes that we have recommended; and, in fact, we can already see some progress, especially in the World Bank.

## CONCLUSION

In conclusion, the fiscal year 1983 budget proposals are a crucial element in our comprehensive long-term program to improve MDB effectiveness over the remainder of the decade. We believe that our request achieves the proper balance among our international and domestic requirements and fully reflects the real budgetary constraints upon the U.S. Government. At the same time, it safeguards our considerable interests in the developing world and in the Banks.

Enactment of the legislation will affirm U.S. determination to exercise responsible economic and political leadership. It will also demonstrate the seriousness of our commitment to work to induce those changes in MDB policies which we have concluded are necessary to improve the effectiveness of these institutions.

I hope that we can count on your support.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Regan follows:]

# PREPARED STATEMENT OF HON. DONALD T. REGAN

## SECRETARY OF THE TREASURY

Mr. Chairman, and Members of the Committee, I welcome this opportunity to appear before you to discuss the Administration's fiscal year 1983 budget proposals for the multilateral development banks.

As you know, last year's foreign assistance appropriations bill was the first enacted in three years. The Administration attached considerable importance to this legislation and we recognize and very much appreciate the constructive role played by you, Mr. Chairman, and by the Members of this Committee, throughout the process leading up to its enactment. We also value highly the frank and informative bipartisan dialogue we established with members and staff of the Congress during the preparation of our recently released report assessing future U.S. participation in the MDBs.

For fiscal year 1983, the Administration proposes $1,537 million in budget authority and $2,361 million under program limitations for subscriptions and contributions to the MDBs.

I would like to assure you that this proposal has been carefully scrutinized to fully reflect the Administration's firm commitment to fiscal responsibility.

For the International Bank for Reconstruction and Development (IBRD), we propose $109,720,549 in budget authority and $1,353,220,096 under program limitations for the second of six installments toward the U.S. share of the 1981 General Capital Increase (GCI).

To subscribe to the U.S. share of the 1981 "companion" increase, we propose $30,158,750 under program limitations. This increase is designed to prevent dilution of member voting power by providing each member with 250 additional votes. The increase has no paid-in component and requires no budget authority.

To complete the U.S. subscription to the 1977 Selective Capital Increase, we propose $16,321,004 in budget authority and $146,897,067 under program limitations.

The total request for the IBRD is $126,041,533 in budget authority and $1,530,275,913 under program limitations.

For the International Development Association (IDA), the Administration is proposing a third installment of our contribution to the sixth replenishment in the amount of $945,000,000. This level of funding is consistent with the ceiling placed on fiscal year 1983 appropriations for IDA in the Omnibus Budget Reconciliation Act of 1981. The proposed level is also a reduction of $945 million from the amount originally envisioned by the Administration in March 1981 and entails a significant reduction in the IDA lending program.

For the Inter-American Development Bank (IDB), we propose $62,423,437 in budget authority for paid-in capital and $828,137,742 under program limitations for callable capital to complete our subscription to the fifth replenishment.

For the Fund for Special Operations (FSO), we propose $175,000,000 for the fourth installment to the current replenishment and $46,677,000 for the unfunded portion of the previous replenishment -- a total of $221,677,000.

For the Asian Development Bank (ADB), we propose $248,097 in budget authority and $2,243,811 under program limitations to complete the U.S. subscription to the most recent capital increase.

For the Asian Development Fund (ADF), we propose $111,250,000 for the fourth installment to the current replenishment and $20,384,478 for the unfunded portion of the previous replenishment, a total of $131,634,478.

For the African Development Fund (AFDF), we propose $50,000,000 for the first of three installments for the new replenishment. The Administration will propose legislation in the coming weeks to authorize a U.S. contribution of $150,000,000 over the three years of this replenishment, which totals a little more than $1 billion. While the proposed U.S. contribution over three years is 20 percent higher than the $125 million negotiated in 1978 for the previous three year replenishment, it is likely to represent a decline in real terms.

The total request represents an increase of $275.3 million in budget authority and $20.7 million under program limitations over the fiscal year 1982 appropriation.

With regard to the increase in MDB funding we are requesting, I would like to stress three points:

-- With the sole exception of the $50 million proposed for the African Development Fund, the FY 1983 request is based on international arrangements negotiated by the previous Administration. President Reagan has stressed the importance of the United States living up to these arrangements. The U.S. contribution to the African Development Fund reflects our commitment to continue to support multilateral efforts to assist in the development of the world's poorest region.

-- The main reason for the increase over the FY 1982 appropriations is the proposed addition of $245 million for IDA -- an increase which is directly traceable to this Administration's decision to reduce contributions in the early part of the sixth replenishment and to make up the amounts later in the replenishment and to appropriations ceilings established by the Congress.

-- In the longer term, the trend of U.S. contributions is clearly down. By FY 1985, when the replenishments will have been largely negotiated by this Administration, we plan total appropriation request levels of about $1.2 billion annually and accompanying amounts for callable capital subscriptions. This will entail a significant reduction in real terms in U.S. contributions to new soft loan window replenishments.

Since becoming Secretary, I have met regularly with my counterparts from key industrial countries. Our common long term goal is to build and maintain an international economic system that is open, growing, and characterized by increased efficiency and output. We hope and expect that such a system will encourage the development of democratic, pluralistic and free market societies. The MDBs represent one of the most visible and concrete examples of allied cooperation towards this end -- not just cooperation for cooperation's sake, but because these institutions serve our common interests.

As you know, the Treasury Department has over the past year conducted an assessment designed to establish the necessary framework for future U.S. participation in the

MDBs and to outline policy goals to be pursued. This was the most thorough U.S. examination of the institutions since they were established.

The Administration is convinced that continued U.S. participation in the MDBs is justified by a fundamental national interest in a more stable and secure world, which we believe can be best achieved in an open, market-oriented international system. To the extent that the MDBs encourage the participation of developing countries in that international system on a permanent and self-sustaining basis, the MDBs can serve to advance important U.S. economic, strategic and humanitarian interests.

Our conclusions underscore the role the MDBs can play as catalysts in the international economic system and as providers of sound economic advice.

We can see an example of the catalytic role the MDBs can play close to home and in strong support of U.S. foreign policy goals. The World Bank and Inter-American Development Bank chair consultative groups for the Caribbean and Central America, respectively, which will complement the President's Caribbean Basin Initiative. In addition to providing a forum for donor coordination, the MDBs are also expected to provide development assistance in the range of $700 to $800 million annually to the region.

The fundamental decision in our assessment is to continue U.S. leadership in these programs and is based on our conclusion that U.S. foreign policy interests can be well-served by the MDBs. Cost sharing and financial leveraging mean that the MDBs can provide significant resources at a relatively small direct budgetary cost to the U.S. Government.

In the Caribbean Basin, the MDBs provided $234.3

million to Costa Rica, El Salvador and Jamaica in 1981, while U.S. bilateral economic and military assistance was $165.9 million.

The region adjacent to the Persian Gulf is of critical importance to U.S. interests. In 1981, seven key countries -- Kenya, Pakistan, Mauritius, Seychelles, Somalia, Sudan and Oman -- received $345.4 million from U.S. bilateral programs. The MDBs more than matched that amount with $700.5 million.

The United States maintains basing arrangements in Kenya, Oman, Somalia, Thailand and the Philippines. These five countries accounted for a total of $1,456.6 million in MDB lending in 1981. Our total bilateral program provided $396 million to these same countries.

In seven countries of strategic importance to the United States in Africa -- Botswana, Djibouti, Liberia, Sudan, Tunisia, Zambia and Zimbabwe -- U.S. bilateral economic and military assistance programs provided $247 million in 1981, while the MDBs provided $426.1 million in the same year.

For all 27 countries in the table I have attached to my statement, all U.S. bilateral economic and military assistance programs provided $5.6 billion in 1981. If the MDB graduates, Israel, Oman and Spain, are omitted, the bilateral total is $3.3 billion. The MDBs provided $3.8 billion to these countries.

The point that these statistics establish is that the MDBs -- where the United States provides a fraction of the resources -- are important complements to our bilateral assistance program.

We are also convinced that the MDBs can use their resources more effectively. To this end, U.S. support for the MDBs will be designed to encourage:

- adherence to free and open markets,
- emphasis on the private sector as a vehicle for growth,
- minimal government involvement, and
- assistance to the needy countries who demonstrate an ability to make good use of available resources by adopting appropriate domestic economic policies.

With regard to specific recommendations for improving MDB effectiveness, we will seek three primary goals.

(1) The first is to have MDB lending programs increasingly emphasize attention to market signals and incentives, to private sector development, and to greater financial participation by commercial banks, private investors and other sources of private financing. A critically important goal of the MDBs in the future will be to encourage the private sector to invest its own capital and expertise in sound projects. It is in this role, as a catalytic agent in the enhancement of entrepreneurship, investment capital and production, that the MDBs can make a particularly significant contribution to economic development.

-- The International Finance Corporation knows the private sector and understands how to attract outside investors. We will be working closely with the IFC and other governments to develop additional ways to strengthen the private sector role in programs of the World Bank Group and the regional MDBs.

-- At the request of Venezuela, the IDB is working with the United States and other interested members to fashion a program targeted on the private sector.

-- The Administration has encouraged the MDBs to extend project cofinancing with private financial institutions. We believe there are opportunities for U.S. financial corporations in the cofinancing field, and we are currently examining whether some U.S. regulations may unreasonably limit possibilities in this area.

(2) A second goal is more selectivity and policy conditionality in MDB operations, in effect linking MDB lending to a recipient's pursuit of appropriate micro and macro economic policies. Financing for countries pursuing ineffective policies should be curtailed, and, if circumstances dictate, terminated. The importance of efficient loan allocations is underscored by the fact that our assessment found indications that past MDB emphasis on lending targets had eroded MDB effectiveness in encouraging sound economic policies.

(3) A third goal is to encourage the MDBs to adopt effective policies to "graduate" countries from the hard loan windows, when these countries have advanced to the point that they can rely fully on private capital flows. Similarly, countries that have achieved a requisite level of creditworthiness should "mature" from the soft loan windows and borrow from the hard loan windows as rapidly as their debt serving capacity permits.

By pursuing more selectivity in lending within a framework of effective graduation and maturation policies, we can ensure that scarce resources are concentrated on those countries which can best employ them and which are in the greatest need. And we can obtain more cost-effective development financing from the MDBs, while limiting budgetary outlays.

We are convinced that these policies which the United States is pursuing in the MDBs constitute a sound foundation from which economic development can be most efficiently promoted. I am also hopeful that they form an excellent basis for strong bipartisan Congressional support for U.S. participation in these important institutions.

In the past, U.S. relations with the MDBs and other donors have frequently been clouded by uncertainties regarding U.S. implementation of internationally negotiated arrangements. It is important that U.S. efforts to improve the effectiveness of MDB operations not be undermined by such uncertainties. This underscores the importance of consultations between the Executive and Legislative Branches on funding arrangements prior to and during the course of international negotiations, as well as prompt Congressional consideration of the U.S. contributions and subscriptions which follow from such international negotiations.

During the course of this year, the Administration will be negotiating replenishments for the hard and soft loan windows of the Inter-American Development Bank and the Asian Development Bank. We plan to participate fully in these replenishments, but we will insist on realism and restraint in future lending programs. Before this Administration enters into any understandings there will be thorough consultations with Members of this Committee and other interested Members.

-- The negotiations for an FSO replenishment have recently begun. We would expect to phase down the FSO, in light of the relatively high income levels which exist in Latin America.

-- In replenishment negotiations for the Asian Development Bank and for the Inter-American Development Bank, we are suggesting the elimination of paid-in capital which would reduce the budgetary cost of U.S. participation in the MDBs.

Reduced levels of paid-in capital would have the effect of bringing MDB lending interest rates closer to market levels and of shifting the program cost from non-borrowing shareholders to borrowers, since interest-free paid-in capital would be replaced by borrowing from capital markets to support lending programs.

Our analysis indicates that the impact on the financial integrity of the MDBs would be minimal and would be offset by relatively modest increases in financial charges.

The Congress would retain full control over callable capital subscriptions to the MDBs. No U.S. subscriptions to callable capital could be made without approval by the Congress in authorizing and appropriations legislation. Callable capital subscriptions could only be made to the extent that the Congress provides for program limitations in appropriations acts.

However, other donors have reacted negatively to the idea of eliminating all paid-in capital. Some members of Congress also have reservations, and we are prepared to consider the views of others on this issue.

Some have asked how can we maintain sufficient influence to implement our policies when we are limiting our contributions to the MDBs.

The United States remains the largest contributor to the MDBs, and our leadership position ensures that our views will be given serious consideration. We believe our recommendations are sound and that they reflect not only our national interests, but the common interests of the democratic, largely free market oriented countries, who provide the major share of resources to these institutions. We are committed to pursuing actively recommendations in our assessment and to continuing to be a reliable financial supporter of the MDBs.

These factors provide solid foundations for anticipating continued strong U.S. influence in these institutions.

At the same time, there will obviously be difficulties in carrying out all our policy objectives because of the multilateral character of the institutions. The views and policy objectives of other countries must clearly be considered. We have, however, generally been encouraged by the international reaction to our report. While there have been significant expressions of disappointment at the proposed reduction in U.S. contributions to the soft loan windows, members and MDB management have emphasized their willingness to work with us to improve MDB effectiveness. We are thus optimistic that we can, over time and with the cooperation of our partners, bring about many of the changes that we have recommended. And, in fact, we can already see some progress, especially in the World Bank.

-- In December, the Congress mandated that the Administration undertake negotiations to reduce the share of IDA credits provided to any given country. The World Bank has firmly indicated to India the need to shift its borrowing from the IDA to the IBRD. We expect that in the World Bank fiscal year 1982, India's traditional 40 percent share of IDA will decline to about 34 percent and forsee a continuing decline in subsequent years.

-- In the Asian Development Bank we have proposed -- and other donors have supported our position --

that relatively creditworthy countries, such as Thailand, Philippines, Indonesia and Papua-New Guinea, cease to borrow from the bank's soft window, the Asian Development Fund. This position has generally been adopted, and the last ADF loans for these countries are being processed this year.

-- In January, the World Bank Executive Directors reviewed the IBRD graduation policy and accepted new, more specific procedures for limiting and eventually phasing out lending to higher income countries. While we welcomed these steps, we would prefer a lower trigger point than the proposed $2,650 per capita income level and are continuing to explore this issue with other Executive Directors and Bank management.

-- The United States has worked hard in the IDB to encourage minimum standards for realistic user charges in power and transport projects. These user charges will be designed to cover operating and capital costs of these services.

## CONCLUSION

The fiscal year 1983 budget proposals are a crucial element in our comprehensive long-term program to improve MDB effectiveness over the remainder of the decade. We believe that our request achieves the proper balance among our international and domestic requirements and fully reflects the real budgetary constraints upon the United States Government. At the same time it safeguards our considerable interests in the developing world and in the Banks.

Enactment of the legislation will affirm U.S. determination to exercise responsible economic and political leadership. It will also demonstrate the seriousness of our commitment to work to induce those changes in MDB policies which we have concluded are necessary to improve the effectiveness of these institutions. I hope we can count on your support.

Comparison of Bilateral and MDB Assistance to countries of Importance to the United States 1/
($ million)

| | 1981 MDB Lending 2/ | | | FY 1981 U.S. Economic Military Assistance 3/ |
|---|---|---|---|---|
| | Hard | Soft | Total | |
| Africa | | | | |
| Botswana | 17.0 | 15.8 | 32.8 | 16.5 |
| Djibouti | -- | -- | -- | 5.2 |
| Kenya | 83.0 | 58.0 | 141.0 | 55.3 |
| Liberia | 5.0 | 4.0 | 9.0 | 33.0 |
| Mauritius | 30.0 | -- | 30.0 | 4.9 |
| Seychelles | -- | 8.6 | 8.6 | 1.2 |
| Somalia | -- | 18.8 | 18.8 | 67.5 |
| Sudan | -- | 90.1 | 90.1 | 137.2 |
| Tunisia | 152.6 | -- | 152.6 | -- |
| Zambia | 26.0 | 8.6 | 34.6 | 30.1 |
| Zimbabwe | 92.0 | 15.0 | 107.0 | 25.0 |
| Asia | | | | |
| Pakistan | 55.0 | 357.0 | 412.0 | 53.0 |
| Philippines | 733.5 | 15.0 | 748.5 | 167.2 |
| Thailand | 533.3 | 15.0 | 548.3 | 79.7 |
| Latin America | | | | |
| Costa Rica | 40.0 | 18.2 | 58.2 | 8.8 |
| El Salvador | 1.0 | 42.4 | 43.4 | 94.9 |
| Jamaica | 132.7 | -- | 132.7 | 62.2 |
| Near East | | | | |
| Cyprus | 14.0 | -- | 14.0 | 24.0 |
| Jordan | 46.0 | -- | 46.0 | 72.2 |
| Lebanon | -- | -- | -- | 24.4 |
| Oman | -- | -- | -- | 26.3 |
| Turkey | 722.0 | -- | 722.0 | 451.6 |
| Egypt | 89.0 | 197.6 | 286.6 | 1739.6 |
| Israel | -- | -- | -- | 2185.0 |
| Europe | | | | |
| Poland | -- | -- | -- | -- |
| Portugal | 120.0 | -- | 120.0 | 88.8 |
| Spain | -- | -- | -- | 133.2 |
| Total | 2892.1 | 864.1 | 3756.2 | 5586.8 |

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1/ The countries are those which received an allocation of Economic Support Funds in fiscal year 1982.

2/ The lending levels include commitments of the International Bank for Reconstruction and Development and the International Development Association in World Bank fiscal year 1981, and commitments from the Inter-American Development Bank (and its Fund for Special Operations), the Asian Development Bank and Fund and the African Development Fund during calendar year 1981.

3/ USAID 1982 Congressional Presentation.

U.S. Treasury
February 24, 1982

Senator **Kasten**. Mr. Secretary, thank you.

I am also pleased that we were able to pass a foreign assistance bill last year. Frankly, it was in large part due to your help and the administration's support, and also the help and support of your associates and your staff. You have a fine group of people that we were able to work with last year.

I want to thank you for the help and thank them for their help as we struggle through these complicated and difficult issues.

Secretary **Regan**. I am glad to hear you say that, Mr. Chairman.

### REACTION TO THE ADMINISTRATION'S REPORT ON THE MDB'S

Senator **Kasten**. I would like to talk about the Department of the Treasury's report on the MDB's.

First, I would like to compliment you on what is surely the most ambitious and wide-ranging report on the banks on this subject that has come out in some time. It is also, I think, a valuable addition to the whole discussion of U.S. policy toward these institutions.

One of the recommendations that the report makes is that the lending policies and programs of these institutions should inceasingly emphasize attention to market signals and incentives. You mentioned this in your statement.

How has this recommendation been received by the institutions and has there been any difference, institution by institution, in terms of the response that they have had? Are there certain institutions that have been more willing and able and forthcoming in terms of adopting some of these initiatives, and are there certain places where you have seen people digging in their heels and not refusing to cooperate but where you have seen a less than enthusiastic response?

Secretary **Regan**. Mr. Chairman, I think overall most institutions have recognized the validity of what we are saying. While perhaps many of the staff in these institutions don't necessarily agree with our economic philosophy, at least I think they understand that other systems have not worked this well and know that what has been tried in the past and failed no longer is a valid premise on which to operate.

I think they are beginning to see that our system can work and should work. As we constantly point out to them, when they look at such countries as Singapore, Japan, and other nations, that have tried the free economic system and compare them with other systems that have not done as well, they get the point that we are trying to make.

Senator **Kasten**. Are you implying then that the Asian Development Bank has been more receptive?

Secretary **Regan**. I would say they were probably a little bit ahead of us, actually. By the time we got there, they were already starting down this road. We literally encouraged them to do this. With our encouragement, they are really taking hold in the Asian Development Bank.

The African Development Bank so far has been a little laggard but that is understandable, considering that is the poorest of all the continents. We are somewhere in between these two institutions with the IDA, I would say.

The World Bank itself recognized the validity of this. I think under the able leadership of Mr. Clausen they will be pursuing a lot more of these market policies.

Senator KASTEN. I sensed there were some rough edges with that group. I hope that you are right.

Secretary REGAN. They aren't entirely happy.

Again, I do think they recognize that our points are worth considering, because absent anything else, what are they going to do?

Senator KASTEN. I think it is important that they understand that the Congress is increasingly concerned about going in that direction, the kind of support and help they are going to get from the Congress, both the Senate and the House, Republicans and Democrats.

Secretary REGAN. That is particularly true of this body, in light of your insistence on the limited amount of funds that are available for these programs and the importance of getting the most out of these funds. I think they also recognize that point.

## PRIVATE SECTOR PARTICIPATION

Senator KASTEN. You also made recommendations to place greater emphasis on private sector participation in order to improve the effectiveness of the multilateral development banks. You said that you intend to use the expertise of the International Finance Corp., and other governments to strengthen the private sector role in these programs. You also mentioned cofinancing as another way to go.

Could you give us more details on other avenues that you are exploring in order to encourage more private sector participation?

Secretary REGAN. I would say when you look at it and consider what is the main problem that banks, investment bankers, or others might have in investing in some of these foreign nations, what they are worried about is whether or not their loans are going to be made good at a time in the future when they come due, and whether in the meantime the interest is going to be paid on those loans.

Now, there has never been a default to the World Bank. So speaking as a former investment banker, if you go in partnership with someone to whom there has never been a default and the likelihood of a default is very slim or nonexistent, then you feel a lot safer about your own loan.

So, I think this is the way to leverage the funds that the World Bank has, by having them take along partners in their deals, rather than doing it all by themselves, particularly in deals where there would be sufficient return to warrant the risk that a partner might be taking.

## GRADUATION POLICY

Senator KASTEN. You also talked in the report about the fact that this administration has also pushed a graduation policy. You also mentioned that in your statement, encouraging MDB's to graduate countries based on economic considerations.

How is that being received? Are people accepting that?

Secretary REGAN. Unfortunately, no one likes to be kicked out or forced off something they have been used to over a period of time and where, particularly in these days of high interest rates, they are able to get lower rates of interest than elsewhere and not have to go through the hassle of going to the private markets. So there aren't too many countries that are really anxious to do it.

Nonetheless, sooner or later, to use a bird analogy, one is kicked out of the nest. I think we are doing more or less the same thing in the World Bank and encouraging these nations to stand on their own feet and get out of the way because we have a lot of other nations coming along who are more in need than they.

Senator KASTEN. We have heard more on that particular subject than any of the other recommendations, but I share your view that this is clearly the direction we have to go as we try to work with the scarce resources that we have.

Secretary REGAN. That is it. There are limited resources. If we are going to use those wisely, we have to use them in those nations that most need them.

### INTER-AMERICAN FOUNDATION ACCESS TO SOCIAL PROGRESS TRUST FUND REFLOWS

Senator KASTEN. The Social Progress Trust Fund was set up to receive reflows which are made on all U.S. loans in foreign countries. It has been a longstanding policy that the Inter-American Foundation has first rights as to the use of this foreign currency. I am concerned that this policy continue, number one, but, second, I am concerned that these currencies be available to the IAF in the first instance on a country-by-country basis.

The Inter-American Foundation testified last week. Can we have your assurance that you will continue the strong policy that the Inter-American Foundation be given the first crack at these funds, and also that they be given the first crack on a country-by-country basis?

Secretary REGAN. Yes, we can give you assurance on that, because we think that, by providing the funds this way, it furthers our own international policies of the United States to do it this way. So, accordingly, we have no desire or idea of changing anything from what it was.

### INDIA'S HOLDINGS OF U.S. SECURITIES

Senator KASTEN. The World Bank decision to reduce India's share of the soft-loan window in the World Bank program, I think, is a step in the right direction, but still some wonder if they have gone far enough, based on India's creditworthiness and ability to pay its debts. We have received reports, for example, that while India continues to receive substantial multilateral and bilateral low-interest loans, it still holds a tremendous amount of U.S. securities.

Do you know how much in U.S. securities is held by India?

Secretary REGAN. I am sorry we don't have that.

Senator KASTEN. It would be helpful if you could provide that to us for the record.

Secretary **REGAN**. We will provide that for the record.

[The information follows:]

### TREASURY SECURITIES HELD BY INDIA

At the end of February 1982, India held $171 million of short-term (one year or less) U.S. Treasury securities, which are the holdings of India's official institutions or banks unaffiliated with U.S. banks. In addition, residents of India held $20 million in long-term marketable U.S. securities (with maturities exceeding one year), including Treasury bonds and notes, bonds of federally sponsored agencies, corporate bonds and corporate stocks.

### INDIA BORROWING FROM THE ASIAN DEVELOPMENT BANK

Senator **KASTEN**. Also, there is some concern that one of the results of India's receiving a smaller share of IDA funds would be for her to turn for assistance to the Asian Development Bank from both hard- and soft-loan windows. Is that happening?

Secretary **REGAN**. It is not happening as yet. They have talked about it. At the present time it is merely in the discussion stage and, frankly, the Asian Development Bank does not have enough money to accommodate India and to make up whatever they would not be receiving from IDA.

Senator **KASTEN**. We would hope that would not happen, anyway.

### CHINESE MEMBERSHIP IN THE WORLD BANK

What is the status of the People's Republic of China's membership in the bank, both as a donor and also as a borrower?

Secretary **REGAN**. Again, that is still in the early stages. I think that it is getting closer.

There have been active discussions on projects.

Mr. **LELAND**. There was one loan from the World Bank which has been approved.

Senator **KASTEN**. There is a loan with the World Bank?

Mr. **LELAND**. There is one loan with the World Bank. Originally, I think, as you know, China was not part of IDA and there were no funds allocated for them in IDA VI. There was an understanding that if there were money available, they would be able to do some borrowing. There have been some plans for them to do more substantial borrowing.

Recently, because of certain cutbacks in the IDA funding, the amounts planned for China are not large; they have received one loan; they are not in the Asian Bank.

Senator **KASTEN**. What about their status as a donor to either organization?

Secretary **REGAN**. They are not a donor to either the Asian Development Bank or IDA.

Senator **KASTEN**. Is there any negotiation going on in that way?

Secretary **REGAN**. Not that I know of.

### PLO OBSERVER IN THE IMF/IBRD ANNUAL MEETINGS

Senator **KASTEN**. Mr. Secretary, do you expect the PLO question to be an issue again at the upcoming meeting of the IMF and the World Bank?

Secretary **Regan**. Yes, I do. I am not sure it will be discussed in detail at this interim committee meeting that will be held in Helsinki next week. I do suspect that it will come up before the next regular meeting of the IMF and the World Bank, which will be on Labor Day in Canada.

I suspect prior to that this issue will be raised.

### EXCLUSION OF ISRAEL

Senator **Kasten**. Some people have expressed concern—I have not seen it in the press—that another issue of the upcoming annual meeting, maybe the one in Canada, will be an attempt to exclude Israel from the World Bank. Do you have any knowledge of such an effort?

Secretary **Regan**. I have not heard about it. At least it has not risen in any formal or even informal conversations we have had with members of the World Bank.

Mr. **Leland**. We had to try to arrange it so that the meeting does not fall on the Ramadan holiday or the Jewish holiday. They changed the date of the meeting to Labor Day because of this.

Senator **Kasten**. If, in fact, the membership of the World Bank excludes Israel, what would the U.S. response be?

Secretary **Regan**. I think we would have to oppose in its entirety any attempt to exclude Israel from the World Bank. There is no need for that. We would take vigorous action.

### BRAZIL AND TURKEY

Senator **Kasten**. Last year you talked about bank lending practices to developing countries, specifically Brazil and Turkey, countries whose debt service costs were over 100 percent of their export earnings. You told the subcommittee that the United States was making an effort to encourage these countries to live within their means and to establish fiscal and monetary responsibility.

I wonder if you could tell us how successful in those two cases your efforts have been?

Secretary **Regan**. In the case of Brazil, they have done rather well. In fact, Brazil is one of the biggest beneficiaries of the drop in oil prices because they are major importers of oil. It was oil that was keeping their import expenditures up.

As far as Turkey is concerned, I think they, too, have been doing very well at keeping their house in order. They are struggling, but nonetheless they are attempting to get their house in order, and we are working with them on that.

### AFRICAN DEVELOPMENT BANK

Senator **Kasten**. We have had reports about deficiencies in the management of the African Development Bank and the possibility that some of these deficiencies could adversely affect the U.S. decision to join that institution, even if we were invited to join that institution.

First of all, are these reports true?

Secretary **Regan**. We have noticed similar reports. I think this has been something that is probably due to the fact that they are newer than some of the other institutions. They have a learning curve, but we have been working on that with members of the bank in order to improve the situation.

Senator KASTEN. Specifically, if the reports are true—and you say they are—does that mean that that will adversely affect the U.S. decision to join that institution if, in fact, we are invited?

Secretary REGAN. No; that will not. If we are invited we will join.

Senator KASTEN. In spite of all the problems?

Secretary REGAN. I think working from the inside we can probably do more than we can working from the outside to improve the situation within the bank.

Senator KASTEN. I don't know the degree that we are being helpful. As you know, we have already spent a substantial sum of money on technical assistance through the Agency for International Development.

Is the money in last year's appropriation going down the rathole?

Secretary REGAN. No, it is not going down the rathole. I think it is doing some good. There is no doubt that management there can be improved, and we will attempt to do that, because we are trying to safeguard the taxpayers' money. We are not going to waste it or let it be wasted by others.

Senator KASTEN. You are suggesting that if we were a member that we would do more than we can through technical assistance?

Secretary REGAN. I mean the assistance is improving management, not just throwing money at the problem, but improving management.

## CARIBBEAN BASIN INITIATIVE

Senator KASTEN. You said in your statement that the World Bank and Inter-American Development Bank chair consultative groups for the Caribbean and Central America that will complement the President's proposed Caribbean Basin Initiative. Can you explain how you expect the $700,000,000 to $800,000,000 development assistance will be used in cooperation with the Caribbean Basin Initiative?

Also, if you could, give us more details on what kind of controls you expect the United States to have over this development assistance.

Secretary REGAN. First of all, there are many projects down there in various countries that are long range; they will take quite a few years to spend out before they reach their finality and before their MDB economic assistance to the individual country ends.

Our Caribbean Basin Initiative is a rather fast spend-out type of program, trying to provide immediate help and trying to get immediate assistance through the private sector for these nations in order to help them right away, rather than long term.

The MDB's assistance will come mainly in the form of longer-term programs. We are trying to put the two together; in other words, we will try to get the countries ready for the longer-term programs when they come in.

Through our directors, in the MDB's we are working on what type of program is best for each of these individual nations and then work to see that that type of program is the one that is put in, rather than one that is duplicative of what we are doing or one that is nonessential to what we think is going down there and what they really need.

So, I think we can assure you, Mr. Chairman, that we are not again trying here to duplicate in our bilateral arrangement with these individual nations what the MDB's can do on a broader scale. We literally don't have the funds to do it all on our own, short term and long term. We are getting up a short-term phase, letting the banks do the long-term phase.

Senator KASTEN. We will be able to continue to monitor and control even the long term?

Secretary REGAN. I am not sure of control; I think we will be able to monitor and guide these projects.

### MDB LENDING TO ARGENTINA

Senator KASTEN. What instructions have you given to our representatives to the World Bank and the Inter-American Development Bank with respect to the U.S. position on any new loans for financing extended to Argentina?

Secretary REGAN. At the present moment there are no such applications that I know of, so accordingly we have had no specific discussions on this, except that I have alerted them that if anything of this nature does come up that they should come back to me for consultation before doing anything within these institutions.

### IBRD MEMBERSHIP FOR POLAND

Senator KASTEN. What is the status of Poland's effort to become a member of the World Bank group?

Secretary REGAN. As far as I know, that is still in the talking stage. There has been a group from the IMF, I believe, that was in Poland earlier this year, but there are no active considerations at this moment for Poland to join the World Bank.

### RESCHEDULING POLAND'S DEBTS

Senator KASTEN. A couple of weeks ago, in testimony before our committee, Assistant Secretary Leland said that there was a very great chance that our allies will refuse to reschedule Poland's 1982 debts because Poland will not be able to make its interest payments. As you know, the international banking community is eager to reschedule the debt, and Poland has stated that it cannot make its interest payments unless we extend new credit very soon.

I am afraid it is only a matter of time until our allies begin to grant Poland these new credits, in part to protect the loans they have already made.

I do not share Mr. Leland's optimism about the chance for a unanimous decision among our allies not to reschedule simply because they are bankers—as you once were—and once you get started you want to protect the debts you already have.

Isn't it more likely we will be the only country that will refuse to reschedule, or do you think that our allies will, in fact, act together?

Secretary **Regan**. This is an ongoing situation and any forecast as to what is going to happen, obviously, is going to be very imprecise.

Take, for example, what happened in Poland yesterday with the outbreak again of violence and the like; we don't know what the economic situation in that country is going to be 3, 4 or 5 months, let alone 3, 4, 5 years from now.

At the current moment there are no new credits being extended to Poland by anyone, private or public, government or nongovernment sources. There is no doubt also, though, that sooner or later the Poles have to come to grips with the 1982 debt, and I suspect that, as you suggest, they will be looking for additional sums.

At the current moment I know of nobody who is inclined to want to put additional moneys into Poland. So, I think this is going to be, as we term it on Wall Street, a workout situation.

Mr. **Leland**. I would like to add that what I said was that I felt there would be a better chance of getting our allies to go along with us in refusing to reschedule than there would be of getting our allies to go along with us in precipitating a default.

### ALLIED CREDITS TO THE SOVIET UNION

Senator **Kasten**. Mr. Secretary, we have been talking with our allies for several months now about a united response toward martial law. As you point out, it got worse in the last 48 hours. Secretary Buckley recently led a high level mission to Europe to try to convince our allies to limit future credits to the Soviet Union. The State Department believes some of our allies, or all of our allies, will go along with limiting future credits to the Soviet Union. At the same time, we see them supplying credits to build the natural gas pipeline which is going to supply the Soviets with hard currency, $8,000,000,000 a year in hard currency, once completed.

One of our NATO allies, West Germany, has approved $517,000,000 in new Soviet export credit since January alone.

What makes you think that the allies will agree to any kind of meaningful limitations on Soviet credit at all?

Secretary **Regan**. This is not a situation that we can quickly turn on or off. It has to be a matter of negotiation with our allies. This has to be a matter of their getting public support in their own countries. They also have to look at the effects on their own economies of suddenly reducing a trade that has been going on since the end of World War II.

So, we recognize that statecraft is a slow process and many of us are impatient, but I suspect that as we talk more and more to them, and point out to them what they are actually doing in extending credits to the Soviets, we probably will be able to get them gradually to go along with us.

Now, in the meantime, as far as the pipeline itself is concerned, this is something that they think is necessary for their own well-being, that if deprived of the natural gas in the future, their countries wouldn't be nearly as strong as they would be otherwise, because they need alternate sources of energy.

Senator **Kasten**. They could have had that alternate source from Norway or other places.

Secretary REGAN. Unfortunately, the previous government in Norway was adamant about not wanting to sell the natural gas right away, but wanting to keep it as a national treasure, something for the future. The current government seems to have changed its mind or, at least, changed position from the previous government, and now seems more willing to sell their gas. Whether or not it is feasible and viable and financeable, if you want to use that term, to get this gas from the Norwegian Sea into West Germany and then other parts of Western Europe remains to be seen; but it will take time to accomplish that. It is not something that can be done overnight.

On the one hand, we are looking at the Norwegian situation. On the other hand, we know that the Western European countries have committed themselves to that Soviet pipeline, and I am not sure that anything short of a real emergency, a national emergency, would persuade them to break off their involvement in the pipeline at this point.

As to the second pipeline and others, I think we are going to encourage them to use the Norwegian gas rather than the second pipeline.

Senator KASTEN. You said the process of statecraft is a slow one. You said that you believe there is an opportunity to move forward toward some kind of limitations. In everything I have seen and everything we have gotten in testimony, I have not seen one solid indication that our allies, particualrly West Germany, are willing to work toward any kind of credit limitations or slowdown in East-West trade.

Can you give me a specific example of where they have demonstrated this publicly? It seems like we are whistling in the wind and in every single bit of news that I read, whether it is Italy or France or Germany, it is more credits, more financing.

Can you give me one specific example in the last few months where we have seen the allies move away?

Secretary REGAN. While it may be difficult to give you examples, I don't think that we see any rate of increase. I think we are in a sort of neutral stage at this point.

Most of the financial flows are more in the short term, to finance actual trade. Mr. Chairman, many of our partners also ask us, rightly or wrongly, why we are asking them to cut back on their trade, while we are still selling grain to Russia. As you know, our farm interests protest violently whenever we decide we are going to shut off the grain sales.

It is difficult, on the one hand, to encourage our partners to cut back their trade at the same time we are selling. Although grain is one thing and manufactured products are something else, nonetheless the two are equated in the minds of many of our allies.

We have to come to grips with our own problem here as well. In the meantime, this is one of the subjects that will be discussed at the forthcoming summit which is a month from now. It is an ongoing concern with us.

Again, I suspect that we are going to have to do an awful lot more talking before we finally convince them.

## ALLIED COOPERATION IN EXTENDING CREDITS

Senator **KASTEN**. One of the things that we have discussed in the committee and also discussed privately with some people in the administration is the possibility of putting together some kind of organization along the lines of the technology transfer group that we have with this COCOM, in which we review the technology before we decide to go forward with it.

What I am suggesting is that we do the same thing with some kind of credit, with financing, in which we as a group of countries, NATO countries, our allies, review whether or not this particular project ought to be financed for the Soviet Union or Soviet satellites, whether it is in our overall best interests to do so, whether or not there might be a chance of working within the Alliance.

For example, on the energy question, could we have used this money to finance or encourage Norwegian gas? I want you to react to that whole idea of a COCOM-like group for financing loans to the Soviet Union or to the Soviet satellites.

Secretary **REGAN**. That is an interesting thought, Mr. Chairman. We now have somewhat informal groups stemming from the Buckley mission, in which we have periodic discussions with our allies at various levels about these subjects.

Also, next week, I will be at an OECD meeting and later an Interim Committee meeting of the IMF and World Bank. I will be meeting with my opposite numbers, finance ministers, of many nations, particularly from the European Community, and that is one of the subjects that will to come up.

Now, without having a formal type of organization, we will be having these informal, private discussions. These will continue during the times that meetings are not formally held.

I think we will have exchanges with them when we get into such questions as the Polish debt and things of that nature. We know that there the topic broadens. Our discussions are not limited to Poland; we take up issues relating to all Eastern bloc countries and to the Soviets. In all of these discussions we are leading the charge, trying to get them to cut back on the amount of credit and the amount of subsidization of that credit through lower interest rates that they are extending to the Soviets.

## SCOPE OF ALLIED COOPERATION

Senator **KASTEN**. One of the things that concerned me about Secretary Buckley's report before this committee, in a very abbreviated form, was that he said that they were addressing only credits to the Soveit Union and not credits in financing to the Soviet satellite countries. Is that your understanding, and if it is your understanding, through what mechanisms are we discussing with our allies credit and financing to the Soviet bloc countries as you just mentioned?

Secretary **REGAN**. That is going on in a little different area than the main Buckley mission which was on the Soviet Union.

What we are talking about now in the administration and trying to come to some type of policy on is, to use the current byword or catch phrase, differentiation. Do you indeed differentiate among the nations that make up the Eastern bloc? For statecraft reasons or for financial reasons, should there be a difference among them?

Some say yes; some say no. Some say indirectly if you help them you are helping the Soviets. Others say no, but if you don't help them you will drive them further into the Soviet orbit.

So, we are having discussions as to exactly how we should treat these individual members of the Eastern bloc.

As you know, Hungary has been up for membership in the IMF and its membership will be coming very soon. Romania is already a member. Do they in turn differ from Bulgaria, from the East German Government? Many of us think that there are differences among them, but to what extent they have different creditworthiness is a matter of judgment.

Senator KASTEN. But there is no question about the link back to the Soviet Union; in other words, that by aiding the satellite countries with financial support for their infrastructure, we are relieving the Soviet Union of the responsibility to do some of that, thereby freeing up Soviet assets for their unprecedented offensive military buildup.

Secretary REGAN. A good case can be made that when you help them you are indirectly helping the Soviets; and a case can be made also that if you don't help them there is no chance that they would ever join the Western orbit, that they will be lost forever. Therein lies our problem as to just how far we should go in dealing with those particular nations.

Is freedom dead, for example, in Hungary? Is there any other chance for that nation to get outside the Soviet orbit, or any one of the other nations? Poland has tried it with unfortunate results. Nonetheless, that spark is there. Do we want to continue to fan that spark, or do we want to forever shut it off by saying, "No credit. Go to the Soviets. We will have no dealings with you"? That is a judgment we have to make but one that will affect the lives and the political history of all of these nations for years to come.

We don't want to just jump to conclusions on these matters. We are trying to think it through very carefully.

Senator KASTEN. I don't want to beat this to death, but in testimony before our committee a representative of Solidarity, a number of leading Polish analysts, the former Polish ambassador to Japan who defected, appeared here and said the way we can best help the people of Poland, and the way we can best help Solidarity, help those fighting for freedom, would be to declare the debt in default and cut off our aid to Poland, and thereby force the Soviets to preempt those resources.

They were unanimous in their feeling that this whole idea of fanning the flames that you are talking about did not work and, in fact, bound us in, and we no longer have that flexibility.

I know there are two sides to that. I appreciate your response.

## QUESTIONS FOR THE RECORD

Senator Inouye had wanted to be here this morning. He sent a message down that he cannot be here. He particularly sent his apologies to you. He will submit a number of questions for the record. I have some additional questions that I will also submit for the record.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### EXPORT-IMPORT BANK POLICY

Senator Kasten: Mr. Secretary, on another subject, and I realize this is a bit unfair in that you have not been asked to testify on this particular subject--I would like to have your general views on the necessity, or not, of a strong, well-financed Export-Import Bank in order to have a sound U.S. export policy.

As you know, there is a great deal of criticism presently being aimed at the Export-Import Bank because of what is perceived to be very low numbers and a disinterest on the part of this Administration, as reflected in their ability to get people nominated and to get those nominated confirmed for the Board of the Bank.

Secretary Regan: The Administration opposes export credit subsidies in principle, but feels that an efficient and prudently used Eximbank is needed to support U.S. exporters against the predatory financing practices of other governments.

The Administration hopes for the rapid confirmation of the people we have nominated for the Board of the Eximbank. Quick Congressional action would facilitate Bank operations in the coming year.

We also continue to press for Congressional approval of our FY 83 budget requests for the Eximbank, which amount to the following:

-- $3.830 billion for direct loan obligations, which include $3.730 billion for regular loans and $100 million for discount loans.

-- $8.0 billion for guarantees and insurance.

-- $16.253 million for administrative expenses.

Although the amounts requested by the Administration are slightly lower than those authorized in recent years, we feel that the resources will remain adequate for the demand placed upon them.

We may have to reassess this position, however, if proposed amendments to the Arrangement on Export Credits are not accepted by all Organization for Economic Cooperation and Development (OECD) countries. These amendments, through a combination of reclassification and modest increases in interest rates, would essentially equalize the terms of foreign export credits and those of the Eximbank.

We have also implemented a number of policies in the past year designed to conserve the Bank's resources without undermining its competitiveness. First, we negotiated higher minimum rates in the Export Credit Arrangement last November which significantly decreased foreign export credit subsidization. Secondly, the understanding on commercial jet aircraft now limits direct credit support, with an estimated savings of about $500 million annually.

Thirdly, a recent understanding with the Ministry of Finance in Japan now enables the Eximbank to guarantee commercial bank credits in yen. Finally, the Eximbank can also guarantee loans in Swiss francs, Deutsche marks, and other major Special Drawing Rights (SDR) currencies.

In addition, the Bank itself has adopted policies which result in the more efficient use of its resources. The Bank no longer supports sales to relatively rich countries and limits its assistance for aircraft cases to financial guarantees except for wide-body, medium-range and new generation aircraft. General purpose lines of credit have been discontinued for the most part, since we could never determine whether they added to U.S. exports. Finally, the Bank has developed a targeted approach to enable it to provide the minimum financing needed for a U.S. supplier to compete.

Thus, the Administration believes that the Bank will have sufficient budgetary authority and program flexibility to meet specific challenges from foreign official competitors.

## PAID-IN CAPITAL

Senator Kasten: Mr. Secretary, thus far you have run into basically a negative reaction to your proposal to eliminate all paid-in capital. You know our reservations, which I understand parallel many such reservations in Congress. Despite these reservations, some kind of a compromise could be struck, and I wonder if you have approached a modified position with respect to this issue. And, if you have, what is it?

Secretary Regan: Initially, I should stress that the position we have adopted with regard to paid-in capital is a reflection of the long-term historical trend to lower the proportion of paid-in capital in Multilateral Development Banks (MDBs) and is based on solid financial and budgetary grounds. Our analysis leads to the conclusion that most of the multilateral development banks have sufficient financial strength, so that paid-in capital is not needed. We felt that this point needed to be examined particularly by the management of the respective banks and by other donors. Secondly, we believe that on the basis of callable capital subscriptions, most of the MDBs can fully rely on private market borrowings to finance their hard window lending programs with no significant additional cost to the borrowers. This is particularly important given current budgetary constraints in donor countries.

I believe that the discussions we have had thus far with other members and with the officials of the banks have amply made these points.

I have appreciated from the first the importance that Members of the Congress placed on continuing to include paid-in capital in future replenishments. In view of this Congressional sentiment, and since our primary objective of having the issue seriously examined has been achieved, I expect that our negotiators for the various replenishment agreements will be given instructions to agree to some paid-in capital in their negotiations. However, we continue to believe that the share of paid-in capital can be prudently and substantially reduced in both the IDB and the ADB.

In sum, I think at the conclusion of negotiations you will be satisfied with the outcome on this issue, although I am inclined to believe that the historical trend will continue and that future replenishments will see continued declines and eventual elimination of paid-in capital.

## EXECUTIVE DIRECTOR APPOINTMENTS

Senator Kasten: Mr. Secretary, this Administration has now been in office for 15 months. And yet not all of the Executive Director and Alternate Executive Director positions have been filled at the MDBs.

When can we expect everyone to be on Board?

Secretary Regan: The Administration has nominated James Burnham to be Executive Director at the World Bank. He has already had his Senate confirmation hearings and we hope to have him in place by the end of June. In accordance with the procedures of the World Bank, Mr. Burnham will then appoint his Alternate. We have identified a qualified candidate for that position and will be submitting his nomination to the Senate once Mr. Burnham has been confirmed.

The only remaining vacant Executive Director position is at the African Development Fund. Over the past year we have identified a number of candidates; unfortunately, for a variety of reasons none of those candidates chose to accept the position. Consequently, we are actively seeking a qualified candidate.

## MDB REACTION TO SELECTIVITY AND CONDITIONALITY

Senator Kasten: Mr. Secretary, another recommendation of your report encourages the institutions to use more selectivity and policy conditionality in the provision of their loans, much like, I suppose, the International Monetary Fund.

How has that been received by the individual MDBs?

Secretary Regan: Officials of the MDBs, to a large extent, are in accord with our general views on selectivity and policy conditionality.

We anticipate that there may be greater resistance -- particularly by borrowing countries -- when we express our views in the context of individual loans. Our stress on greater selectivity in lending programs will be translated into insistence on improved loan quality and avoidance of processing loans to meet lending targets. We will press for strengthened conditionality, particularly in individual MDB projects that appear to be in an economic policy framework which is not conducive to successful project implementation.

## INTER-AMERICAN DEVELOPMENT BANK

Senator Kasten: Mr. Secretary, while the Inter-American Development Bank ranks high in terms of United States political and strategic interests, it above the rest has suffered from management difficulties. As you know, there have been continuing complaints of cozy, personal type deals being made, and generally concerns that it is the most politicized of the MDBs.

What, if anything, are you doing to correct this situation in the IDB?

Secretary Regan: Our Executive Director and Alternate at the Inter-American Development Bank (IDB) are fully aware of the criticisms concerning politicization of the IDB, and they are working with other Executive Directors and with management to correct this image. Recently, for example, the position of Auditor General at the IDB was strengthened, and the functions of his office expanded in order to ensure that the internal audit function be performed independently and responsibly. Other changes in Bank procedures, including strengthening of the role of the Board of Directors in its relationship with the external auditors, are under review.

## IDA APPROPRIATIONS

Senator Kasten: Mr. Secretary, your statement seems to imply that if you were not subject to the ceiling placed upon you by the reconciliation legislation, you would be requesting more for IDA. Have you requested that that ceiling be increased or lifted?

If that ceiling did not exist, what would your request be?

Secretary Regan: The Administration has not requested any change in the $945 million ceiling on fiscal year 1983 appropriations for the Sixth Replenishment of the International Development Association (IDA VI) established in the Omnibus Budget Reconciliation Act of 1981.

It is difficult to speculate what our request level would be in the absence of a ceiling, since the issue has not been reviewed within the Administration. I think it is important to stress the high value that the President places on living up to international agreements, including the IDA VI replenishment agreement.

## REDUCED PROGRAM FUNDING

Senator Inouye: Mr. Secretary, with reference to the conclusions of the Treasury Department assessment, you have said,

"The Administration is convinced that continued U.S. participation in the MDBs is justified by a fundamental national interest in a more stable and secure world .... the MDBs can serve to advance important U.S. economic, strategic, and humanitarian interests."

You have also said, "U.S. foreign policy interests can be well-served by the MDBs. Cost sharing and financial leveraging mean that the MDBs can provide significant resources at a relatively small direct budgetary cost to the U.S. Government."

The Assessment itself concludes:

- The MDBs, by and large, have been most effective in contributing to the achievement of our global economic and financial objectives;

- The MDBs have served U.S. commercial interests well;

-- The MDBs, particularly the hard-loan windows, are particularly effective in serving the budgetary objective because of cost-sharing with other donors and the financial leverage derived by MDB borrowing against callable capital guarantees;

-- The MDBs have served the U.S. institutional efficiency objective reasonably well through operational and administrative efficiency and the generation of generally high-quality loans.

With this record of achievement, why is the Administration proposing a reduction in U.S. participation in the MDBs over the next several years?

In proposing such sweeping changes in the operations of the MDBs, can it not be said that the Administration is placing the success of these institutions at risk?

You have noted that other donors have reacted negatively to certain U.S. proposals. Can you assure the Committee that the Administration is working to maintain the collaborative nature of these institutions and is not imposing its views simply because the United States is the largest contributor?

Secretary Regan: In proposing reduced U.S. financial participation in the MDBs, we are reflecting our emphasis on more effective use of existing MDB resources, as well as our real budgetary constraints. Through improved loan quality, strengthened maturation and graduation policies and more attention to policy conditionality, we believe resources can be stretched to provide support for development programs, at a relatively smaller budgetary cost.

The reduction envisioned relates to U.S. outyear contributions to the MDB soft-loan windows. It does not indicate any diminution of our overall commitment to continue strong U.S. support for the MDBs. The fact is that the Administration fully intends to play a major role in each of the MDBs, and our ability to do so should not be severely hindered by the overall reduction in MDB appropriations which are envisioned in the mid-1980s. In the hard-loan windows, we will seek to maintain the U.S. share of capital increases. (We have the largest share of any country in the Inter-American Development Bank, the International Bank for Reconstruction and Development and, with Japan, in the Asian Development Bank.) We also expect to remain the largest overall donor of soft window contributions. Thus in spite of reduced financial participation in absolute terms, the United States will remain in the same relative position in the banks.

We, of course, recognize that the MDBs are cooperative multilateral institutions, and that the views and policy objectives of other members must clearly be considered. We are nonetheless encouraged by the international reaction to our MDB report. While there have been significant expressions of disappointment at the proposed outyear reductions in U.S. contributions to the soft-loan windows, members and MDB management have emphasized their willingness to work with us to improve MDB effectiveness with regard to many of the other policy recommendations. We are thus optimistic that we can, over time, and with the cooperation of our partners, bring about many of the changes we are seeking.

## INTERNATIONAL DEVELOPMENT ASSOCIATION

Senator Inouye: Mr. Secretary, does the Reagan Administration fully support the $945 million appropriation request for a contribution to the Sixth Replenishment of the International Development Association?

The amount requested is considerably less than the Administration projected in March of 1981 as the FY 1983 request, is it not?

You note that this request "entails a significant reduction in the IDA lending program."

In practical terms, what does this mean?

How does it affect our relations with other donors?

Are there approved projects which will not be funded?

How will the significant reduction in the IDA lending program affect the less developed countries?

As approved projects are deferred because of a lack of funds, does that not increase their cost at a later date?

Does the Administration fully recognize that those of us who supported the FY 1982 bill did so because we had carefully crafted a bill which had an acceptable balance between development assistance and security assistance?

Does the Administration fully recognize that the fate of its security assistance initiatives hinges on the fate of IDA and on economic assistance in general?

Secretary Regan: The Administration strongly and fully supports the $945 million FY 1983 appropriations request for IDA, and will make every effort to obtain the full request. The $945 million is less than we initially envisioned as our FY 1983 contribution to IDA VI, but is the maximum permitted under the appropriations ceiling which was established by the Congress for FY 1983.

The original IDA VI lending program projected IDA commitments of $3.5 billion in FY 1981, $4.1 billion in FY 1982 and $4.7 billion in FY 1983. On the basis of a four year program -- with U.S. contributions of $500 million (FY 1981), $700 million (FY 1982), $945 million (FY 1983) and $1095 million (FY 1984) -- Bank management has projected FY 1982 commitments of $2.6 billion and FY 1983 commitments of $3.3 billion. The extent to which this program reduction will impact on IDA recipients will depend on a number of factors, i.e. the Bank's ability to improve the quality of lending, the position of other donors, and the progress which is made in "maturing" the more creditworthy IDA recipients into more hard-loan window borrowing.

Some donors intend to pay their remaining IDA VI contributions in FY 1983 as planned, but others wish to adopt the U.S. pace so as not to disrupt the agreed cost-sharing formula. To help compensate for the U.S. shortfall, some donors want to create a "special account" without the United States.

Although the level of U.S. funding has affected the level of IDA loan commitments, there should not be any significant impact on the implementation of projects which have already been approved since loan disbursements are spread out over several years. Projects in the IDA pipeline, however, could be deferred or their implementation modified given current IDA funding constraints. While deferral may raise project costs somewhat, the rate of inflation in the industrialized countries is declining, which should mitigate the problem of inflating project costs.

The Administration is well aware of Congressional views regarding the appropriate balance between development assistance and security supporting assistance. I can assure you that we do not intend to downplay development assistance, and believe that our FY 1983 appropriations request is concrete evidence of the importance which this Administration attaches to an effective, development assistance program, based on the multilateral cost-sharing advantages of the MDBs.

## GRADUATION AND MATURATION

Senator Inouye: Mr. Secretary, the Treasury Department assessment (United States Participation in the Multilateral Development Banks in the 1980s) discusses at length the terms "graduation" and "maturation." What do these terms mean to you?

I believe these are laudable goals, but I wonder how effective the U.S. can be in advancing them when it is also proposed that we reduce our participation in the Multilateral Banks.

What do you think? Is this not, or does it not at least appear to be, inconsistent?

Would you agree that, for the Administration to have credibility in future negotiations which propose to advance "graduation" and "maturation," it must demonstrate to other donors that it can secure the appropriation it requests?

What would be the consequences, if the Congress did not provide the $945 million requested for IDA? Would anyone believe what you have said regarding "graduation" and "maturation"?

Secretary Regan: As you know, development is an evolutionary process. It is our view that as recipient country creditworthiness improves, adjustments should be made in the nature and extent of countries' access to available MDB resources. There are two basic transitional stages for MDB recipients: (1) "maturation" from the status of borrowing only from the soft-loan windows, to the intermediate step of borrowing a "blend" of soft-loan and hard-loan window funds, and eventually to the status of borrowing only from the hard-loan windows, and (2) "graduation" from the status of borrowing from the hard windows to full reliance on other sources of external capital, primarily from the private capital markets. The "graduation" concept, in some cases, also implies accepting a larger role as a donor to the MDBs.

Neither maturation nor graduation is a new concept, although past MDB policies in these areas have sometimes been somewhat vague and not uniformly implemented. In the past, such countries as Greece, Singapore and Iceland have graduated from IBRD lending. Similarly, such countries as Turkey, Morocco and Nigeria have matured from IDA lending.

As I have noted earlier, I do think that we will maintain our influence in the MDBs. I also believe that over time we can work successfully with the respective MDB managements and with other MDB members to secure equitable implementation of maturation and graduation policies. While the Administration attaches considerable importance to obtaining our $945 million FY 1983 request for IDA VI appropriations, I do not think this issue in itself will affect our ability to encourage more effective maturation/graduation policies.

At the same time, it is clear that our partners in the World Bank are very concerned about the disruptions which the U.S. "stretchout" of IDA VI contributions has caused in IDA's lending program. If the United States were not able to complete our full IDA VI contribution in FY 1984 as now envisioned, this concern would clearly increase and the seriousness of the U.S. commitment to maintain a leadership role in the MDBs could be called into question.

## FUTURE U.S. CONTRIBUTIONS; CHINA

Senator Inouye: Mr Secretary, you have said that, by fiscal year 1985, when the replenishments will have been largely negotiated by this Administration, there will be a "significant reduction in real terms in U.S. contributions to new soft-loan window replenishments."

How have other donors and members of the MDBs responded to this proposition?

Does this "significant reduction" presume a significant improvement in the economies of the world's poorest countries?

Do you believe it is realistic to assume that there will be a "significant reduction in real terms in U.S. contributions?"

Is it not probable that China, with a population of more than one billion and a per capita income of only $260, will draw heavily on IDA resources?

When do you expect China to begin borrowing from IDA?

How much do you expect China to borrow on an annual basis?

Secretary Regan: Other donors and MDB members have generally been disappointed by the envisioned reductions in U.S. outyear contributions to the soft-loan windows. Some other donors, however, also have budgetary constraints which are expected to impact on their future soft-loan window contributions.

While we do not expect a dramatic improvement in the economies of the world's poorest countries over the next few years, we do think that a number of soft-loan recipients can meet an increasing proportion of their MDB requirements from the hard-loan windows. For example, several countries in southeast Asia are expected to cease borrowing from the Asian Development Fund this year and shift fully to the hard window to finance their ADB-supported programs. As such "maturation" is more effectively implemented by the banks, there could still be increases in the amount of soft-window resources going to the less creditworthy of the world's poorest countries.

We believe it is realistic to expect that there will be a significant reduction in real terms in U.S. contributions to the soft-loan windows as compared to current replenishments as negotiated.

With regard to China, in FY 1981, the World Bank approved a $100 million IDA credit and $100 million IBRD loan to the People's Republic of China to strengthen higher education and research activities in science and engineering. A $60 million IDA credit for agricultural development was approved in June 1982. There are eight other proposed projects in the IBRD/IDA pipeline. Two of these projects, totalling $197 million, could be considered by the Board this summer.

The United States supports the World Bank working over time towards an appropriate level of lending on appropriate terms to China. The blend of the lending program between IBRD and IDA resources should refect the availability of IDA commitment authority and its equitable distribution among IDA borrowers, many of whom are much poorer than China. The blend should also take into account China's relatively creditworthy financial status, as reflected by its access to large amounts of external credits on relatively hard terms. On purely financial grounds, it seems reasonable to conclude that China should borrow relatively little from IDA.

## CONTRIBUTIONS TO SOFT-LOAN WINDOWS

Senator Inouye: Mr. Secretary, the Treasury Department study of United States participation in the Multilateral Development Banks has recommended a reduction of 30 to 45 percent in real terms in total U.S. contributions to all soft-loan windows.

What is the basis for the recommendation? Are the economies of the world's poorest nations expected to improve that significantly? Does the Administration believe that the need for concessional assistance will be reduced, or does it propose that the need go unmet?

I note that proposed U.S. contributions to the Asian and African Development Funds do not provide for such large real reductions.

Does this not mean that the Inter-American Development Bank's (IDB) Fund for Special Operations and the International Development Association will bear a disproportionate burden for the reduction?

On what basis has Treasury decided to allocate the recommended reduction in this manner?

Secretary Regan: In reviewing the soft-loan window programs of the Multilateral Development Banks, the Administration considered the effectiveness of these programs, and the efficacy with which borrowers use the financial resources, as well as the financial need of the borrowing countries. In some cases, while there may be an apparent need for financial resources, economic policies of a borrowing country may undercut the viability of a project for soft-loan funding.

By contrast, in other cases, the relatively successful development efforts of a country -- usually measured in terms of strengthened capacity to service debt -- may allow a country to fund a larger portion of its borrowing program through the hard-loan windows.

It was the combination of these two factors -- the need for more effective programs and policies and the reality of strengthened debt service capability among some borrowers -- which led to the conclusion in our assessment that the soft-loan programs could be reduced substantially in real terms in future replenishments.

These underlying factors also explain, to a great extent, the distribution of reductions among the various soft-loan programs. The absence of significant reductions in the Asian and African Development Funds is a result of the evident need, based on low per capita incomes, and -- in the case of Asia -- on the efficiency of the institution and the relative effectiveness of recipient government policies. By contrast, most countries borrowing from the FSO have relatively higher per capita incomes than the soft window borrowers in Africa and Asia and should be able to carry the relatively heavier debt servicing associated with borrowing from the hard window.

In the case of IDA, our conclusion on future replenishment levels will probably be heavily influenced by the large share of the lending program going to India. It has become increasingly apparent that India -- despite its relatively low per capita income of $240 per year -- can manage a debt structure associated with borrowing a harder blend from the World Bank Group.

I would also acknowledge that our overall conclusions with regard to funding for the soft-loan windows were based, in part, on the need to restrain U.S. budgetary commitments.

## SELECTIVITY AND CONDITIONALITY

Senator Inouye: Mr. Secretary, in reading over your statement, I was intrigued by your enumeration of the three primary goals of the Administration regarding specific recommendations for improving MDB effectiveness.

In particular, I was struck by the goal of "more selectivity and policy conditionality in MDB operations, in effect linking MDB lending to a recipient's pursuit of appropriate micro and macro economic policies."

Can you elaborate on what you mean by appropriate economic policies?

If the United States were to seek a loan from an MDB -- with the deficit we will experience this year, with our current tax policies, with our trade balance what it is -- would the United States be judged as pursuing "appropriate economic policies"?

Should we hold less developed countries to standards we ourselves could not meet?

Secretary Regan: We believe firmly, and there is considerable supporting evidence, that those countries which have benefitted most from foreign assistance have primarily benefitted because they pursued sound market oriented domestic policies. We thus consider it important to strengthen the relationship between loan programs and the framework of micro and/or macro economic policies within which the loan is expected to be implemented. Such policies should facilitate rather than hinder the effective implementation of MDB loans, and it accomplishes little to lend in situations where inefficient or restrictive domestic policies are likely to preclude effective project implementation. Policies which emphasize attention to market signals and incentives, to private sector development, and to the encouragement of greater financial participation by banks, private investors, and other sources of private finance, would be in line with the type of domestic policy environment we wish to encourage.

Like most industrial countries, the United States does confront some very serious economic and financial problems. These should not be underestimated. However, the policies we have proposed are geared to successfully overcoming the problems we face and setting the United States firmly on the road to steady and sustainable growth. Thus, we view the policies we are pursuing to be very appropriate, and indeed there are a number of very positive indications, such as the lower inflation rate, that progress is being made.

## AFRICAN DEVELOPMENT BANK

Senator Inouye: Mr. Secretary, I have recently become aware of the precarious financial condition of the African Development Bank. Before I get to my questions, would you confirm my understanding of this situation?

(1) Almost 50 percent of the interest and principal repayments that should have been collected last year were not. Nonetheless, the Bank continues to make new loans to countries in arrears. Is that correct?

(2) Arrearages of principal and interest almost doubled last year to over 24 million Special Drawing Rights. Is that correct?

What is the dollar equivalent of 24 million Special Drawing Rights?

Fifty percent of these arrearages are more than 12 months overdue. Correct?

(3) The Bank is committed to lend 804 million SDR at 7-1/2 percent interest, while it costs the Bank nearly 18% to borrow these funds. Is that correct?

Now, as I recall, the Congress has appropriated $17.9 million as an initial U.S. contribution to the African Development Bank. These funds have not been disbursed because the U.S. has not yet joined the Bank. Is that correct?

To what do you attribute the continued deterioration of the Bank's condition?

Is the Administration presently providing, or does it propose, technical assistance to strengthen the African Development Bank?

Does the revitalization of the Bank depend upon strengthened management or a basic political decision on the part of its members to see the institution succeed?

Are the countries which are in arrears to African Development Bank current on their World Bank and IDA loans?

Given the Bank's condition, why should the U.S. join the Bank? Why has the Administration not proposed a rescission of the $17.9 million the Congress has appropriated? Could it not be used more effectively elsewhere?

Secretary Regan: As of the end of 1981, the African Bank was owed some SDR 24.5 million, approximately $28.5 million, in principal and interest payments, of which SDR 12.3 million was over 12 months past due. Because of this poor repayment record, African Development Bank (AFDB) Management, with the approval of the Board of Directors, is strictly enforcing the sanctions contained in the loan agreements. Consequently, in February, management notified all countries that any arrearages must be paid by May or all disbursements on outstanding loans will cease and no new loans will be considered.

As of December 31, 1981, the Bank had a balance of SDR 804 million in undisbursed loans for which it is committed to charge between 7 and 7.5 percent interest in addition to a 1 percent per year commission fee, or a total of 8 to 8.5 percent. The Bank has since increased its lending rate and is now charging approximately 10.5 percent per year for its new loans while its average borrowing cost has been 11.5 percent. In effect, the African borrowers have been subsidizing their costs of borrowing from the AFDB by using their paid-in capital subscriptions as a cost-free resource. This is not the practice in the other MDBs. Over time, we feel that this practice must be discouraged in the African Bank.

Currently, neither the United States, nor any other non-African country, is a member of the Bank. Consequently, the $17.99 million which was appropriated for subscription to AFDB paid-in capital has not been disbursed. However, the changes in the Bank Charter to allow non-regional membership in the AFDB have now been approved. It is expected that the Bank will have non-regional members by late this year or early 1983.

The primary cause of the deterioration in the Bank's financial condition has been the negative spread between their lending rates and costs of borrowing. The financial condition has been further eroded by loan and subscription arrearages. Bank Management and the Board of Directors have indicated actions to deal with these problems.

The Agency for International Development has a technical assistance program with the African Development Bank under which consultants are paid to work on the staff of the Bank and provide training both formally and informally to other staff members. Other countries have also provided the Bank with the services of technical experts in such fields as agronomy, engineering, economics and project analysis.

Although the management efficiency and effectiveness of the African Development Bank Group have been steadily improving over the past few years, significant further improvement in the Bank's overall performance will be necessary for the Bank Group to reach its full potential as a development institution. In this regard, we expect that non-regional membership in the Bank and the addition of experts from non-regional countries to the staff of the Bank will have a very positive effect on the Bank Group.

The African Development Bank is making a major effort to collect the loan payments due to them. Countries that are still in arrears are not receiving new loans from the Bank nor are they receiving disbursements under existing loans.

As far as IDA and the World Bank are concerned, our understanding is that the African member countries are generally current in their loan and credit repayments. However, as of June 14, 1982, the World Bank suspended most disbursements on outstanding loans and credits to Tanzania because of payment arrearages totalling $2.8 million.

The financial situation of the AFDB is serious but it is not beyond redemption. Management and the Board have already started to take the steps necessary to improve the Bank's financial condition and non-regional membership can only have a beneficial effect. The budgetary costs of membership are not particularly onerous. From an international perspective, a decision not to join the Bank would only serve to engender ill will among our allies and key African countries. I believe that as a member the United States could help the institution to reach its full potential.

As far as a rescission is concerned, the Administration has not proposed one because there has not been a decision that the African Development Bank would not be opened for non-regional membership.

## AFRICAN DEVELOPMENT FUND

Senator Inouye: Mr. Secretary, the Administration has requested $50 million as the first of three equal installments for the new replenishment of the African Development Fund.

This represents a 20 percent increase above the U.S. share of the previous replenishment.

Is the African Development Fund separate and distinct from the African Development Bank?

Is it, too, plagued by managerial ineffectiveness?

How do you account for the difference?

Secretary Regan: Although the proposed $150 million U.S. share of the third replenishment to the African Development Fund is a 20 percent nominal increase in our contribution, it constitutes little, if any, increase in real terms when considering the rate of inflation in the years between the last replenishment and this one.

The African Development Fund is a separate and distinct legal entity from the African Development Bank with separate Boards of Directors. However, the Management and staff are the same for both institutions.

The African Development Bank Group, that is the Bank and the Fund together, is probably less effective and efficient from an administrative and operational viewpoint than the other Multilateral Development Banks. However, the Bank Group Management has recognized the problems it has in these two areas and is taking a number of steps to improve the situation. They have, for example, made a concerted effort to recruit more highly qualified staff and to increase training opportunities for staff members who are already on board. Upgrading of staff has been carried out through overseas training assignments with the World Bank and the Asian Development Bank as well as through on-the-job training which is supervised by technical experts from developed countries. We will continue to monitor the progress made by the Bank Group in these areas, as well as in the area of operations and encourage them to make further improvements.

The basic difference between the two institutions is that we can affect the policies followed in the Fund but we do not yet have any say on Bank policy because we are not a member.

## ASIAN DEVELOPMENT FUND

Senator Inouye: Mr. Secretary, a letter to me, dated April 26, 1982, outlines Treasury Department plans for U.S. participation in the proposed replenishment of the Asian Development Fund.

Why does the Administration propose to reduce the U.S. contribution from 22.25 percent down to 16.25 percent of the proposed replenishment?

The Treasury study on United States participation in the Multilateral Development Banks rates the ADB as the most efficient Multilateral Development Bank.

Is this proposed reduction not inconsistent with Treasury's finding?

Does this reduction not reduce U.S. influence in the Asian Development Bank and Fund?

How would you respond, if the Congress were to propose holding the U.S. contribution at its present percentage level?

Secretary Regan: It was not the objective of the Administration to reduce the U.S. share in the Asian Development Fund (ADF) from 22.25 percent to 16.25 percent. The reduction in our ADF share results from other donors' desire to support an ADF replenishment significantly larger ($3.2 billion) than the one suggested by the United States ($2.3 billion). We had not asked nor implied that other donors should increase their ADF share.

In view of the relative need for concessional assistance in the region and the institutional capabilities of the Asian Development Bank (ADB), we have proposed a U.S. contribution of $520 million to the ADF, which is $75 million more than our current replenishment figure of $445 million. This increase comes at a time when we are planning to reduce the level of our contributions to the IDB's Fund for Special Operations and the next International Development Association replenishment. We therefore believe that our proposed ADF contribution is consistent with the findings of the Assessment.

The reduction in our ADF share has led some donor countries to request increases in their respective ADB capital shares. If their requests are granted, there may be some marginal reduction in our capital share. However, even if all the requested selective capital increases are implemented, the U.S. and Japan would still share the role of being the largest capital subscribers. We therefore do not believe U.S. influence will be reduced in the Bank and Fund.

Regarding your last question, we could not agree to a Congressional proposal that would hold the U.S. contribution at its present percentage level. Such a proposal would require the U.S. to provide an additional $180 million (over four years) to the ADF. Given the budgetary limitations we are facing, any increase for the ADF would have to come at the expense of one of the other concessional windows -- the International Development Association, the Fund for Special Operations or the African Development Fund. Provision of additional funds for the ADF might make it more difficult to negotiate reduced FSO and IDA VII contributions.

Further, we are convinced that the MDBs -- including the ADB -- should concentrate on more efficient and effective use of their resources and should desist from continuing to seek rapid growth in their lending programs as a major objective. Any increase beyond the level that the Administration proposes risks undermining these objectives in the MDBs.

## PAID-IN CAPITAL

Senator Inouye: The Administration's negotiating position in replenishments of the Inter-American Development Bank and the Asian Development Bank calls for the elimination of paid-in capital.

How would this reduce the budgetary cost of U.S. participation in the MDBs?

The reduction in budgetary cost would be modest. Is this savings worth the political costs we would incur in our relations with other donors?

Have other donors expressed their view on this proposal? Do they favor or oppose it?

What would happen to MDB lending interest rates, if this proposal is accepted?

If the lending rates move closer to market rates, does that not, at least in part, negate the purpose of the MDBs?

If borrowings from private capital markets increase, what effect will that have on U.S. interest rates?

Will this not have a dampening effect on the U.S. economy? Would the envisioned reduction in budgetary costs offset the cost of higher interest rates to our economy?

Secretary Regan: Reduction in paid-in capital in the MDBs would lead to a direct dollar-for-dollar reduction in budgetary outlays. In the most recent capital increases, the annual appropriations for paid-in capital are over $50 million and $20 million in the IDB and ADB, respectively.

Other donors generally agree that the level of paid-in capital should be reduced from past levels, but they also believe that some further paid-in is advisable. Accordingly, I do not believe that we will incur any significant political costs in seeking a reduction in paid-in capital.

MDB lending rates may have to be adjusted upwards modestly, if paid-in capital is reduced. However, this adjustment would be relatively small compared to the present overall level of interest rates. MDB rates and maturities will still remain well below those that even the best risks among the LDCs could obtain on their own, because the MDBs borrow on the basis of the callable capital of the developed members. This is the main advantage accruing to the LDCs as borrowers from the MDBs. I would also note that a reduction in the subsidy element associated with interest-free, paid-in capital should assist in a more rational allocation of scarce capital.

The increased market borrowings resulting from a reduction in paid-in capital will have no effect on U.S. interest rates, since the increase on borrowings only substitute for paid-in capital that the U.S. itself would have to borrow from the capital markets in the first place. Consequently, its effects should be neutral on the U.S. economy and interest rates.

## COMMERCIAL BANKS IN DEVELOPING COUNTRIES

Senator Inouye: Mr. Secretary, when you appeared here last year, one of the matters we discussed was the exposure of U.S. commercial banks in the developing world. I noted at that time that the nine largest American Banks had, at the end of 1979, $38.6 billion on loan to developing countries. I also noted that the total capital of these banks was only $21.9 billion.

What is the situation now? What is the exposure of the nine largest banks, and how does that compare to their capital?

What of the dangers of insolvency? Have U.S. banks suffered increased losses on their foreign claims?

Secretary Regan: The total claims of the nine "money center" banks[1] rose from $38.6 billion at the end of 1979 to $49.0 billion at the end of 1980 and to $52.0 billion at the end of June 1981 (the most recent date for which we have published "exposure" data). The total capital of those banks rose from $21.9 billion to $24.0 billion and $26.0 billion, respectively. The ratio of these claims to capital rose accordingly from 1.76 at the end of 1979 to 2.04 at the end of 1980 and 2.08 at the end of June 1981. (The comparable ratios for all banks reporting on the country exposure lending survey were: 1.22; 1.35; and 1.39.)

The increase in exposure relative to capital is substantial but not startling. It reflects the sharp increase in the current account deficits of the developing countries during this period. The increase in bank lending to developing countries is expected to decelerate this year.

There has been little or no increase during this period in the proportion of international loans written off. (Virtually all such write-offs reflect losses from "commercial risk" rather than "country risk".) The ratio of losses on international loans (all foreign countries) to the total of such loans outstanding at year end for the nine money center banks was .09 percent at the end of 1979, .07 percent at the end of 1980, and .09 percent at the end of 1981. However, losses generally are recorded only with some delay after the loans in question become non-performing (since debtors are often able to work out their difficulties and ultimately to service their debt). Thus, recent developments may not be reflected in the ratios cited above.

## U.S. FINANCIAL EXPOSURE IN ARGENTINA

Senator Inouye: Mr. Secretary, Argentina is reported to owe $30 billion in foreign debts, with some $8.6 billion owed to U.S. banks.

What is your assessment of Argentina's debt repayment prospects?

How much of the $8.6 billion owed to U.S. Banks is secured by U.S. Government guarantees?

What is the total of U.S. Government contingent liabilities on Argentina's debt?

Secretary Regan: We expect that Argentina will keep its debt service payments current. Argentina wants to make certain that all its debts are paid and all its financial obligations are met in order to protect its credit rating and assure continued access to external finance.

Some payments abroad have been delayed due to a decree by the Government of Argentina on April 30 that requires prior Central Bank approval for all payments abroad. We have been assured that these delays are essentially administrative in nature and do not reflect either an unwillingness or inability to pay.

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[1] Cross-border, non-local currency claims on non-oil developing countries. Adjusted for guarantees so as to reflect risk by country of guarantor. Excludes claims on LDC "financial centers" (e.g., Bahamas, Cayman Islands, Panama as well as claims on Eastern Europe).

Despite the adverse impact of the crisis in the South Atlantic, Argentina's basic balance of payments position is fairly strong. Argentina registered a trade surplus of $1.1 billion during the first four months of the year with agricultural exports reaching near-record levels in April and May.

The U.S. Government has contingent liabilities of about $450 million in connection with guarantees and insurance provided to private U.S. residents, including $299.3 million under Export-Import Bank programs (as of December 31, 1981). Of this amount, $169.6 million was Export-Import Bank guarantees of commercial bank loans to Argentina. U.S. government direct lending to Argentina was $266 million at the end of 1981, including $178 million owed the Export-Import Bank.

## TREASURY DEPARTMENT TRAVEL POLICY

Senator Inouye: Mr. Secretary, in the public mind, one of the hallmarks of the Reagan Administration is a sustained effort to reduce the costs of the Federal Government. Over the years, this Subcommittee tried very hard to send that same message to international organizations. For example, we were strongly critical of first-class travel by World Bank employees and, especially, their use of the Concorde. You can understand, then, the disappointment I felt when I read that one of your close associates -- the Assistant Secretary of the Treasury for International Affairs -- has used the Concorde. Is it, in fact, true that Mr. Leland used the Concorde for official travel?

What is the Treasury Department's policy regarding first-class travel or use of the Concorde?

Do you think it is important for high-ranking government officials to set an example?

One of the complaints we frequently hear is that many agencies have cut transportation outlays so severely for lower-level officials that they are unable to perform their duties adequately. Has the Treasury Department cut its budget for travel?

Has the World Bank maintained its restrictions on first-class travel?

Secretary Regan: Consistent with a government-wide policy, the Treasury Department has a general policy that government personnel should travel at coach rates -- or, where practical, under GSA's program of contracts with certified air carriers for reduced fares.

The exceptions to this general policy -- which, in appropriate circumstances, would allow travel at first class rates or in the Concorde -- are (a) for medical reasons, (b) in very limited circumstances, when officials must complete a great deal of work on board airplanes in preparation for immediate negotiations, or

(c) when speed is essential for the conduct of official business and coach class facilities are not available.

Assistant Secretary Leland flew between Paris and Washington and New York by use of the Concorde on three occasions in exceptional, but justifiable circumstances, which were fully consistent with Treasury travel policies. On July 9, 1981, at the conclusion of international meetings in Paris, he returned to Washington by the Concorde in order to attend a meeting with me the following morning. Any alternative flight arrangements would have precluded his presence, which was essential.

On October 2, 1981, Assistant Secretary Leland flew from New York to Paris by the Concorde in order to fulfill early morning meeting commitments that had already been rescheduled once. Pressing business had precluded the possiblity of an earlier flight. There was no reasonable alternative in this situation.

Assistant Secretary Leland's return flight during this same trip was on October 7 and was also on the Concorde. This was necessary in order to have him attend key negotiating sessions in Paris on the afternoon of October 7 and still have him return in time to attend meetings in Washington the same afternoon. Again, this arrangement was essential, and there was no reasonable alternative.

Senator, I thoroughly agree with the thrust of your question. It is important that government officials set an example. We make every practical effort to limit use of first class travel, as well as use of the Concorde.

While we have greatly reduced nonessential travel, we have not cut travel necessary for carrying out our basic missions and operations. In fact, the Treasury Department's overall travel request for fiscal year 1983 is $139 million, an increase of $24 million above the 1982 level. This overall increase primarily reflects our strengthening of enforcement activities in the Internal Revenue Service and increased costs associated with the protective functions of the Secret Service.

The more restrictive access to first class travel implemented by the World Bank in 1978 remains in effect and unchanged. A staff member can travel first class on World Bank business for three reasons only: (a) reasons of health, (b) where speed is essential and only first class is available, or (c) if the staff member has been involved in recent, frequent and arduous work-related travel.

## FSO REPLENISHMENT AND CARIBBEAN BASIN INITIATIVE

Senator Leahy: Mr. Secretary, The Administration's Caribbean Basin Initiative would provide $350 million in Economic Support Fund assistance to countries in the Caribbean and Central America. The Administration has indicated, however, that it plans to reduce U.S. contributions by one half or more to the next replenishment of the Inter-American Development Bank's Fund for Special Operations. In view of the fact that 63 percent of FSO funding goes to those countries included in the CBI, isn't this "robbing Peter to pay Paul?" Because U.S. contributions to the FSO generate contributions from other countries, wouldn't continued strong U.S. support of the FSO advance the objectives of the CBI?

More specifically, I believe that $700-$800 million in IDB funds are going to countries in the Caribbean region for activities which the Administration has called "complementary" to U.S. bilateral efforts under the CBI. Why are plans underway to phase out paid-in capital to the IDB, if it and the FSO are advancing objectives compatible with and supportive of those of the U.S. in the region?

Secretary Regan: Although we are proposing significant reductions in the level of the next replenishment of the IDB's Fund for Special Operations, we are proposing an increase in the capital of the IDB sufficient to fund 12% - 15% growth in the lending program to all but the wealthiest IDB borrowers. Because we have proposed a cap on the amount of resources to be lent to the Group A countries (Argentina, Mexico, and Brazil), Caribbean Basin countries would actually receive a greater proportion (34%) of the total lending program than previously (20%).

The purposes of the CBI and the FSO are also different. The CBI is designed to provide short term, quick disbursing balance of payments assistance, whereas the FSO provides long term project financing which can be disbursed over a six to eight year period. The CBI is designed to provide a type of assistance which is not within the current expertise of the IDB, and in which we do not want the IDB to become involved.

We have proposed a reduction in the level of paid-in capital not in order to keep the replenishment small, but rather because the healthy financial condition of the IDB warrants such a reduction. Regardless of the size of the replenishment, we believe the percentage of paid-in capital to that replenishment can and should be reduced.

## CENTRAL AMERICA CONSULTATIVE GROUP

Senator Leahy: Mr. Secretary, it has been reported that the governments of Central American asked the IDB last January to help them develop proposals to resolve their short, medium, and long-term economic problems and to coordinate the inputs of outside aid donors, both bilateral and multilateral. One of the purposes of the CBI is to help solve the short-term balance of payments problems of those and other countries in the Caribbean region. Since this is the case, are efforts being made to coordinate the CBI with other bilateral and multilateral donors under the auspices of the IDB? To what extent does the CBI take into account what other bilateral donors or potential donors -- Mexico, Venezuela, Canada, or European countries -- either are doing or might do to help the region?

Secretary Regan: The IDB will chair a Consultative Group for the countries of Central America. The Consultative Group will provide an opportunity for the donors to exchange views on the overall economic framework in these countries, as well as the operations of their individual programs.

The borrowing countries of Central America will have an opportunity to explain in detail their needs and plans to relatively senior officials of donor governments during Consultative Group meetings.

Apart from its direct lending program, The direct role of the IDB in aiding the governments of Central America will be to assist these countries in bringing forward effective programs to cope with their urgent problems and to accelerate their economic and social development. To this end, the IDB is providing technical assistance and consultants to the countries concerned and is coordinating the efforts of other donors, including the United States.

For our part, in analyzing the economic situation in the Caribbean Basin area and in projecting the financial needs of the area, including potential U.S. bilateral assistance, the United States has taken into account all past, projected, and potential bilateral and multilateral flows to the region. We have had extensive bilateral and multilateral discussions with other donors on their assistance plans.

## RELATIONSHIP BETWEEN BILATERAL AND MULTILATERAL AID

Senator Leahy: Mr. Secretary, while Treasury's recent assessment of the multilateral development banks concludes that those institutions on the whole served U.S. interests well, it nonetheless proposes cuts in future U.S. contributions particularly to the soft-loan windows. This would seem to suggest that the results of the assessment may be less important than the policy position stated by the Administration early on: namely, that greater emphasis should be given to bilateral aid. Is this the case? Can we expect to see a gradual and continuing shift of U.S. aid resources from multilateral channels to bilateral? Is there any concern that U.S. influence in these institutions may be weakened if U.S. contributions are cut?

Secretary Regan: You are quite right, the assessment does conclude that on the whole the MDBs have served U.S. interests well. However, the study also concluded that U.S. bilateral and multilateral aid have different comparative advantages, depending upon the particular objective sought, and complement rather than substitute for each other.

Bilateral assistance mechanisms (particularly PL 480 and ESF programs) can provide quick support for U.S. short-term political interests and priority countries, and are particularly effective in providing U.S. experts to advise on key development constraints in recipient countries.

Multilateral assistance primarily serves long-term U.S. interests and promotes a stable international economic environment, in addition to being cost effective.

Thus, rather than a gradual and continuing shift of U.S. aid resources from multilateral to bilateral channels, it is more a matter of occasionally modifying the relative balance between the two instruments to reflect the particular needs of U.S. foreign policy in advancing our economic and political interests.

Regarding U.S. influence in the MDBs, our ability to continue playing a major role in these institutions should not be severely hindered by the overall reduction in MDB appropriations which are envisioned. In the hard windows, we will seek to maintain our share of future capital increases. (We have the largest share of any country in the IDB and World Bank, and, with Japan, in the ADB). We also expect to remain the largest overall donor of soft window contributions. Thus, in spite of reduced financial participation in absolute terms, the United State will remain nearly in the same relative position.

## IDA VI REPLENISHMENT

Senator Leahy: Mr. Secretary, the U.S. contribution to IDA VI has already been stretched from three to four years, and even then can be completed in FY 84 only if Congress approved appropriations of $945 million for FY 83 and $1.1 billion in FY 84. Given the climate of budget stringency, and Congressional reluctance in some quarters in recent years to approve IDA funding at requested levels, what steps do you plan to take to try to ensure that the full request will be approved this year and the replenishment completed next year?

Secretary Regan: The Administration has asked Congress for $945 million in FY 1983 for IDA VI. This is the maximum allowed under existing legislation. We also intend to request $1,095 million in FY 1984 to complete our IDA VI contribution.

We believe the U.S. contribution to IDA VI is important. Our allies also consider it important, as do the world's poorest countries which would be most directly effected by our inability to complete this contribution in the envisioned timeframe.

I would like to assure you that this Administration will make every effort to secure Congressional approval of the amounts we have requested.

## CONCLUSION

Senator KASTEN. I appreciate your testimony here this morning. Once more, I thank you for the help and cooperation that you have provided to us as we struggle along with these programs.

The record for today's hearing will remain open for 2 weeks, during which time members may submit questions to you in writing. We very much appreciate your testimony this morning.

Secretary REGAN. Thank you, Mr. Chairman. I appreciate the chance to appear before the committee. I want to thank you personally also for accommodating my schedule in rescheduling these hearings several times. I have been very embarrassed by it. I am glad that we finally were able to get together on these matters.

I will be more than happy to answer any questions you or Senator Inouye or anyone else might have for the record.

Senator KASTEN. Thank you.

## SUBCOMMITTEE RECESS

The subcommittee stands in recess until Thursday, May 6th.

[Whereupon, at 11:20 a.m., Tuesday, May 4, the subcommittee was recessed, to reconvene at the call of the Chair.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MAY 11, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2 p.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### LATIN AMERICA AND THE CARIBBEAN

### STATEMENT OF OTTO J. REICH, ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN

#### INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon we will continue our budgetary hearings on the request by the Agency for International Development for three of the bureaus for fiscal year 1983—Latin America, Asia, and Africa—as well as receive testimony on the Sahel development program which comes under the Africa Bureau.

Our first witness will be Mr. Otto J. Reich, Assistant Administrator for Latin America and the Caribbean, Agency for International Development.

Mr. Reich, your entire statement will be made a part of the record. If you will summarize it for us, then we will ask you questions. It is a pleasure working with you.

Mr. REICH. Thank you, Mr. Chairman.

We are all aware of the importance of Latin America and the Caribbean to the United States. It is a region which has become increasingly important to our political and economic security in the last few years. The Agency's fiscal year 1983 budget request for this region reflects the increased attention that the administration is giving to the area.

The Agency remains committed to its traditional roles in the areas of small farm agriculture, health, population, education, and human resource development. At the same time, we remain sensitive to the need to counter the persistent and deep-rooted economic problems which have often resulted in political turmoil. Therefore, our mix of programs includes quick disbursing mechanisms that accelerate production and create jobs in the private sector, as well as activities that address longer-term concerns.

We realize that the resources available for our task are not sufficient; therefore, we have assumed the additional role of catalyst and risk-taker, attracting complementary public and private resources. Our efforts will continue to be directed to those countries which demonstrate a willingness to implement appropriate policies under which sound development programs can be carried out.

### PREPARED STATEMENT

Our national interest can best be served by working toward a goal of sustained broadly based growth within a framework of economic and political freedom.

[The statement follows:]

# PREPARED STATEMENT OF OTTO J. REICH

## ASSISTANT ADMINISTRATOR, LATIN AMERICA AND THE CARIBBEAN

## AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, and Members of the Senate Appropriations Subcommittee on Foreign Operations, I am pleased to have this opportunity to present the fiscal year 1983 program of the Latin America and Caribbean Bureau of the Agency for International Development.

## U.S. Interests in Latin America and the Caribbean

The countries of Latin America and the Caribbean are of fundamental importance to our national security. Recent developments in the region which could threaten that security call for stronger efforts on our part to assist in insuring economic and political stability within the countries of the region.

Latin America and the Caribbean accounted for $39 billion of U.S. exports in 1980, making it second to Western Europe as a market for our products. The region also accounts for 73 percent of all U.S. foreign direct and financial investment in the developing world. Ten million acres of U.S. cropland produce exports to our neighbors to the south, while we, in turn, depend on them as significant sources of several important raw materials and other commodities.

The flow of this commerce and finance is essential to our own economy's ability to increase export earnings and create new jobs for U.S. workers. Exports account for one out of every nine manufacturing jobs in the United States, and the importance of foreign sales to our income and employment is likely to be even greater in the future. Our trading partners to the south, however, are faced with growing economic problems. Worldwide economic stagnation, high petroleum import bills for most, lower prices for major export commodities, a decline in tourism and high debt-service obligations have put severe strains on the balance-of-payments positions of many of these partners and their ability to carry out programs designed to bring about economic growth and development. Some face serious stresses arising from population pressures, resource scarcities, and environmental degradation. Persistent, deep-rooted economic problems, in turn, have given rise to political strains and mounting terrorist activities.

Our national interest requires the unimpeded use of the sea lanes adjacent to North American and the Panama Canal. Half of U.S. trade, including oil, passes through the Panama Canal or the Gulf of Mexico. As our neighbors and friends, they play a major role in our efforts to gain support for U.S. policies in hemispheric and international fora. Twenty-five of the 27 member countries in the region voted for the United Nations resolution condemning Soviet forces in Afghanistan. Increasingly, these countries are important intermediaries between the industrial countries of the north and the developing countries of the south. Mexico co-hosted the summit in Cancun in November 1981, and a Peruvian was elected Secretary General of the United Nations in December 1981.

Geographic proximity to Latin America and the Caribbean affects us in other ways. We are challenged, for example, by the increased flow of illegal immigrants and narcotics across our borders. To meet these problems we need to cooperate justly and generously with the countries involved, not only to interdict these flows but also to assist in finding remedies that address their underlying causes such as poverty and unmet personal aspirations.

Economic problems and interrelated social and political tensions have been growing in the region, particulary in the countries of the Caribbean Basin, since at least the mid-1970s and are of profound concern to the United States. The weakness of the international economy is making it difficult to implement the recovery programs sorely needed. In many cases, a legacy of unbalanced development and misguided economic policies has made domestic political conditions more volatile. The tensions so created contributed to the violence in El Salvador and threaten to do so also in neighboring countries. President Reagan's initiative in the Caribbean Basin has grown out of our concern for the political and economic deterioration of the area.

El Salvador is beleaguered by the efforts of guerrilla subversives to destroy the economy. No reasonable political solution can be attained on the economic ruins of the country. There is no political victory if the country is destroyed.

In Costa Rica, our immediate interest is to assist the country to recover from its most serious economic crisis since the 1930s. Costa Rica has traditionally been an example of democracy at work, demonstrating over most of the last two decades that an open society and free market economy can achieve high rates of growth while spreading the benefits of growth widely. Costa Rica's continued well-being is vital as a stabilizing influence in the region and is critical to our long-term interests.

In Panama, progress continues in efforts to foster a democratic political system and an economic and social environment conducive to improvement in the economy and in the successful operation of the Canal. Modest gains have been experienced in all sectors of the economy except agriculture.

In the Caribbean, it is essential that we bolster the economies of the area with self-sustaining productive activity and more job opportunities in order to avert greater frustration and a turn to radical solutions antithetical to traditional values.

Jamaica, after the crucial elections of October 1980, has designed an ambitious economic recovery program, begun the structural adjustment process, and assembled substantial support for its efforts from the international donor community and the private sector. Progress toward economic recovery has been hurt by a softening of the international market for bauxite and by carryover efforts of the years of economic decline.

Jamaica did register, however, its first year of positive growth in 1981 after seven consecutive years of steady economic decline.

The Eastern Caribbean Islands of St. Kitts-Nevis, Antigua, Montserrat, Dominica, St. Lucia and St. Vincent differ considerably in their stages of development, but through the provision of common government services and other means these islands seek to work together to minimize the inherent difficulties that their small island economies face. Because investment has been stagnant, unemployment approaches 50 percent among young adults in some islands. Private sector production is hampered by small domestic markets, expensive and irregular cargo transport, the emigration of skilled workers, and a paucity of medium-to-long-term financing for new productive enterprises. The Barbadian economy has been a strong performer, together with that of Trinidad and Tobago. Grenada remains troublesome due to its political orientation, a situation that could repeat itself in other countries unless their economies recover and a sense of frustration is overcome.

The island of Hispaniola, shared by Haiti and the Dominican Republic, contains most of the population of the Caribbean outside of Cuba. Haiti remains by far the poorest and least developed country of the Western Hemisphere. Years of isolation and neglect have left its social, economic, educational, and legal institutions moribund or in ruins. Haiti is heavily dependent on U.S. trade, but an increasing number of U.S. businesses are beginning to invest there. A major effort is needed to alleviate poverty in Haiti, but it will be difficult to set in motion and will not bear fruit quickly. Recently, the Government of Haiti announced policy and personnel changes which appear to improve its management of the economy.

The Dominican Republic has been severely affected by a plunge in world prices for all of its major exports--sugar coffee, cacao, ferro-nickel and bauxite. The democratically elected government is attempting to deal with the country's problems by tightening imports, credit and public sector spending. In the meantime, preparations are continuing for the presidential elections scheduled in May.

Guyana reported a slight rise in 1980 in its per capita gross domestic product, which had been on the decline for three consecutive years. However, severe economic problems persist due to low productivity and falling prices of its export products, such as bauxite, sugar and rice.

In Nicaragua, where revolutionary change has already occurred, our interests lie in support of a pluralistic society the achievement of which is a stated aim of the country's government but which appears increasingly unlikely as that situation unfolds.

South America, on the whole, is more developed than Central America and the Caribbean. Except for three countries--Bolivia, Ecuador and Peru--A.I.D. programs have been terminated or are in the final phases of termination. Bolivia, the poorest country of South America, has been plagued by political and economic instability. The most recent government, which assumed power on September 4, 1981, has given some indication of its recognition of the need for changes but has yet to implement fully the political and socioeconomic reforms which are sorely called for. A.I.D. is monitoring very closely Bolivia's efforts to improve human rights and narcotics problems.

Ecuador, despite being a modest exporter of petroleum, remains one of the least developed countries in South America. Declining real exports and growing resource gaps are limiting the country's ability to meet the basic human needs of large segments of its population. In Peru, the government elected in July 1980 has taken bold initiatives to stabilize the economy and to promote long-term, broadly based growth. The focus is on the creation of jobs and increasing real incomes of the poor. These are difficult tasks, especially for a government which faces rising expectations generated by the return to democracy.

## The Dimensions and Significance of Lack of Development

Mr. Chairman, the worsening situations faced by many of the countries of Latin America and the Caribbean, particularly in the Caribbean Basin, call for increased efforts on our part to help restore economic and political stability and to promote equitable economic development in the region.

Poverty still affects one-third of the region's population and an average of 40 to 50 percent of the people in A.I.D.-assisted countries. In rural areas, the figures are even higher. Open unemployment rates have risen to 20 or 30 percent of the economically active population in much of the Caribbean and Central

America, and many of those who do have jobs are underemployed.

Prospects for the rapid alleviation of poverty and unemployment are limited. Likewise, there are no quick fixes to the problems of resource scarcities and environmental degradation. It will also take time to correct the inefficiencies engendered by misguided economic policies. As the region's population expands by 60 to 70 percent over the next two decades, the United States must improve its ability to identify emerging problems and assess alternative responses. Most importantly, it must be willing to support these responses with definite courses of action.

## A.I.D. Strategy

A.I.D.'s strategy in the region is to collaborate with those forces seeking the alleviation of poverty, the achievement of self-sustaining growth, the enhancement and respect for individual civil and economic rights, an improvement in the socioeconomic status of women, and the integration of the countries of Latin America and the Caribbean into an open and equitable international economic system. Central to this strategy will be a stronger effort to encourage and foster private enterprise as a major component of the development process. Our help to the private sector will consist primarily of encouraging the allocation of adequate resources toward private-sector credit and foreign exchange needs, particularly the imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in the balance of payments. We also will work closely with institutions that are needed to support the expanded efforts of the private sector.

Not only does this strategy spring from our traditional humanitarian point of view but it also is the most effective way of furthering U.S. interests. We will continue to work closely with other instruments of U.S. international economic policy and harmonize our approaches to the acceleration of economic growth and developmemt.

Our efforts, however, must be predicated on the wholehearted cooperation of the governments and citizens of the recipient countries, especially those strongly committed to equitable development and sound economic policies. This collaborative approach will also be used in securing the continued assistance of other bilateral and multilateral donors, since the needed changes go far beyond the capability and responsibility of this or any other single nation. We will discuss, for example, with other donors, including the International Monetary Fund, the World Bank, and the Inter-American Development Bank, policy measures to ensure that external assistance is utilized effectively so as to have the greatest possible impact on increased production and employment generation.

A major focus of the A.I.D. effort is on the nations of the Caribbean Basin. This new initiative combines trade, investment, and aid measures designed to assist these countries in coping with an unfavorable international economic environment and in implementing more effective domestic economic policies that stimulate private investment in productive activities. Our efforts in the Caribbean Basin are only part of a larger, coordinated international response to ease and ultimately to reverse the economic crises resulting from sizeable balance-of-payments deficits, high unemployment, lagging agriculture sectors and recurrent natural disasters. A.I.D. is a participant in the consultative mechanism provided by the Caribbean Group for Cooperation in Economic Development, which includes 31 donor and recipient countries and 16 international institutions. The Caribbean Group has been encouraging sound economic policies while providing recipient countries the resources they need to finance priority development projects. In addition to the Caribbean Group, a multilateral arrangement for Central American countries was formed in September 1981. These two groups will provide fora where country policies can be discussed, studied, and coordinated.

In addition to Development Assistance funds, full use will be made of Economic Support Funds, P.L. 480 assistance and Housing Guaranties. All of these resources, and the local currencies they generate, will be programmed to achieve maximum economic impact by expanding credit to the private sector, generating employment and financing counterpart contributions to external loans, thus accelerating their disbursement and further helping the balance of payments and the countries' development efforts.

## FY 1983 Program

The proposed program for FY 1983 totals $600.6 million, which is composed of $326 million from the Economic Support Fund (ESF) and $274.6 million of functional Development Assistance. Of the combined total, $305.4 million would be provided as loans and $295.2 million as grants. Other proposed U.S. assistance to Latin America and the Caribbean includes $185.2 million in P.L. 480 assistance and $118 million in Housing Guaranties.

Thirteen bilateral programs and three regional programs will be the vehicles for the implementation of the program. Of the Development Assistance and ESF resources programmed, some $297.0 million, or 49%, will be provided to Central America; $196.6 million, or 33%, to the Caribbean; $40.0 million, or 7%, to South America; and $67.0 million, or 11%, for the LAC Regional program, which may be used for emergency ESF assistance when the need arises, and which supports such programs as those of the American Institute for Free Labor Development and the Partners of the Americas. The proposed Development Asssistance program is divided among A.I.D.'s functional sectors as follows:

| | |
|---|---|
| Agriculture, Rural Development, Nutrition | $127 million |
| Population Planning | $ 13 million |
| Health | $ 23 million |
| Education and Human Resources Development | $ 40 million |
| Selected Development Activities | $ 71 million |

The details of our Development Assistance and ESF activities for FY 1983 are provided in the Congressional Presentation document which we submitted on March 8.

Let me just briefly summarize what we will be doing in each of our functional sectors and with the Economic Support Funds:

Agriculture, Rural Development and Nutrition: Emphasis in this key sector continues to be on agricultural research, extension, and supporting activities that will result in greater food production, higher incomes, and increased employment for small farmers and other poor people in rural areas. In Peru, a new watershed management project will introduce irrigation systems, soil conservation, forestation and crop improvement programs in the sierra and high jungle areas. This is particularly important since only three percent of Peru's land base is considered suitable for intensive agriculture. Other new projects include agricultural education in Jamaica and agricultural planning in Panama. Ongoing projects in several other countries will continue to stress conservation of natural resources, forestry, fish ponds and promotion of agroindustrial activities.

Population Planning: These funds provide support for voluntary family planning services and contraceptives for the rural poor through paramedical workers and the private sector, as well as other activities designed to reduce the rapid population growth rate in the region.

Much of this program is carried out by local private groups.

Health: Funding in the health sector provides for continuation of existing programs, especially low-cost delivery systems, as well as a new project in Peru to improve rural water systems and sanitation.

Education and Human Resource Development: Activities financed under this account will continue to focus primarily on relieving critical shortages of managers, administrators, technicians, and subprofessionals in both the public and private sectors. A new project in this area will be initiated in Jamaica. At the same time, we will continue our support for rural primary education and for non-formal vocational and adult education.

Special Development Activities: This sector will continue funding for a variety of activities, such as new initiatives in the private sector, alternative energy programs, small community-initiated projects and numerous projects undertaken through private and voluntary organizations. In addition, we will be assisting the private sector by transferring modern technology and management practices (Ecuador), furnishing loans and technical assistance to small businesses that normally cannot borrow from commercial financial institutions (Haiti and Peru), and supporting other programs. An innovative program in the Caribbean region will establish an interisland shipping and marketing system with private-sector participation.

Economic Support Fund: These funds will be utilized in support of stabilization and recovery programs in the Caribbean Basin. Balance-of-payments support will be provided to Costa Rica, El Salvador, Honduras, Jamaica, and the Eastern Caribbean. Other assistance will be targeted largely in support of private-sector activities in industry and agriculture. The Private Sector Promotion project in Honduras will revitalize the private sector's role in production and employment, while a small grant to Jamaica will provide for technical consultancies and training.

## Concluding Remarks

The countries included in the Latin American and Caribbean region face growing economic problems, sometimes combined with political instability. These problems are often exacerbated by rapid population growth, high unemployment, rising balance-of-payments deficits, and restrictive national policies which aggravate rather than ameliorate the conditions affecting the individual countries.

The Agency for International Development remains committed to its traditional roles in the areas of small-farm agriculture, health, population, education and human resource development. At the same time, we remain sensitive to the need to counter persistent and deep-rooted economic problems which have often resulted in varying degrees of political turmoil. Thus our mix of projects must include quick-disbursing mechanisms that accelerate production and create jobs in the private sector, as well as activities that address longer-term concerns. We realized long ago that the resources available to our task are not sufficient. Therefore, we have assumed the additional role of catalyst and risk taker, attracting complementary public and private resources. Our efforts will continue to be directed to those countries which have demonstrated a willingness to implement appropriate policies upon which sound development programs can be carried out. Our national interests can best be served by working toward the goal of sustained, broadly based growth within a framework of economic and political freedom.

### HOUSE ACTION ON CBI

Senator KASTEN. I appreciate your summary. As you know, your entire statement will be made a part of the record.

You highlight the importance the administration places on this area in general, and specifically cite the major focus on the nations of the Caribbean. We have been ready to mark up our portion of the Caribbean Basin Initiative since we had a hearing on the subject on March 17 with Mr. Enders. I think you were there at that time. That was about 2 months ago.

Do you have any idea where we are in terms of the House proceeding on this legislation; are you aware of their action or inaction? We are prepared to mark this up. When can we receive it in our subcommittee?

Mr. REICH. There is a markup by the House Foreign Affairs Committee this afternoon at 3:30.

Senator KASTEN. So we might be looking forward to having full House action?

Mr. REICH. That is correct. They have been delayed by the markup on the fiscal year 1983 legislation.

### PVO SHARE OF CBI REQUEST

Senator KASTEN. One of the reports we have received with reference to the Caribbean Basin Initiative concerns efforts by the private voluntary organizations to get a certain amount of the CBI request earmarked for their own use. We have heard everything from 25 percent of the $350 million to $15 million.

First of all, what is the dollar amount likely to be, and what is your view of these efforts by the private voluntary organizations to get a certain amount of money earmarked?

Mr. REICH. We are aware of those efforts. We have also heard similar figures or proportions. What is very important to remember about the President's proposed CBI legislation is that the supplemental request for fiscal year 1982 constitutes an emergency infusion of fast disbursing economic support funds to provide the much-needed balance-of-payments support that these countries lack. They lack the hard currency that the factories and the farms need to import raw materials, intermediate goods and, in fact, all the inputs to production, the lack of which is causing the closing down of factories and shutting down of plants and farms throughout the Caribbean Basin. Therefore, the allocation of even a small part of the $350 million supplemental request to other uses would not be helpful, from our standpoint.

We have additional resources, development assistance funds, that are allocated to private and voluntary organizations for so-called people-to-people programs. They are useful; there is a role for them. In developing the CBI supplemental request, we conducted a thorough analysis to determine exactly what kinds of U.S. assistance and how much would be necessary for which country.

The proposal that the President sent to the Congress on March 17 is the proposal that I hope the Congress will approve.

Senator KASTEN. You are hopeful that a portion of this money will not be earmarked or allocated to the PVO's at this time?

Mr. REICH. Not in the Caribbean Basin Initiative supplemental request. We have other funds for that purpose. We have the regular fiscal year 1982 request which includes $20,600,000 for PVO's, and the fiscal year 1983 request which includes $16,700,000 for PVO's and also is part of the CBI initiative.

## AID PROGRAM IN EL SALVADOR

Senator KASTEN. The country which will garner the most attention in the region is El Salvador. The fiscal year 1983 budget is substantially above the current year. This subcommittee has asked numerous questions of a number of previous witnesses on U.S. interests and objectives in El Salvador. I think we need to know how you envision the AID program itself.

First of all, can you broadly characterize the program as it affects El Salvador? I think it is fair to say that of primary importance to us will be the issue of control. I do not know how many people we have there, how well the programs are administered, what kind of control we have.

Also, I would be interested in getting a sense of what kind of input the Salvadoran Government will have in this type of program. To what degree are they running their programs or how is their input provided?

Can you broadly characterize the program, talk about control, talk about your AID people there, and talk about the relationship with the government?

Mr. REICH. The AID program in El Salvador, as you correctly stated, certainly has the highest profile. The requested funding levels are the largest amounts that we will be requesting in the foreseeable future.

We have four basic targets in El Salvador: the reactivation of the economy, employment generation, support for the reforms that the government of El Salvador has been carrying out, and other special developmental activities.

As you know, El Salvador has been the target of an insurgency supported by countries beyond the immediate borders of El Salvador.

In addition, of course, El Salvador is a less developed country, one of the countries that probably would have required U.S. assistance even if it had not been suffering this attack from within and without its borders. It has the highest population density in Latin America, and one of the highest in the world.

We are trying to keep El Salvador's economy which has now, in fact, become the principal target of the insurgency, afloat. In our opinion, because the guerrillas have failed to elicit the support of the people, as indicated by the consistent failures of their so-called final offensives, and other failures as exhibited by the election, where over 80 percent of the eligible voters of El Salvador braved threats and in many cases actual death to support the democratic process, the guerrillas have turned to the destruction of the economic base of the country in order to create the kind of conditions that would perhaps lead them to victory.

We are trying to assist the government of El Salvador, first and foremost, in maintaining the economic infrastructure as solidly as possible. That is where a lot of our money in fiscal year 1983 will be going.

Since the destruction of the economic base is causing severe unemployment, we are targeting an additional amount of assistance for the creation of new employment, small producer development—for example, community programs, housing investment guarantees, et cetera.

## CONTROL OF AID FUNDS

The subject of control has come up, as you know, a number of times before. The AID mission in El Salvador has taken measures, in cooperation with the government of El Salvador to prevent what is called capital flight; that is, to prevent AID money from joining that which has been leaving the country.

Obviously, the best way to prevent capital flight is to succeed in stabilizing the country economically and politically so that the people who have the money, instead of fleeing and sending their money overseas, will at least refrain from sending their money overseas. We would like to see the return of the money that has fled from El Salvador.

We have established the following controls particularly for AID money, in order to prevent any U.S. money from flowing out of the country, which, of course, is not the easiest thing to do. First, there is a recently enacted Salvadoran law for the control of international exchange transactions which declares blackmarketing, overinvoicing, and other methods of taking hard currency out of the country, other than through the central bank, to be illegal.

Second, the central bank maintains strict review of all applications for purchase of exchange.

Third, all importers must certify they are using foreign exchange obtained from the central bank to purchase imports at normal market prices.

And, finally, the central bank is establishing price checking units to compare invoices of goods against prices normally charged for such items.

For import transactions which are attributable to the U.S. Government supplied economic support funds, AID has additional control requirements. All such transactions must fit eligibility criteria, which include raw materials and intermediate goods vital to the economy, and imports must be from the United States.

The El Salvador Government provides us with regular reports on the status of all import transactions designated for attribution to the program and certifies when transactions are completed.

We have a very capable, in our opinion, and adequately sized mission in El Salvador. The staff works very hard. Under normal circumstances, we probably would have more people there, but we believe—and this is substantiated by a number of audits that we have had—and I will be happy to give you the list of audits on El Salvador by the Inspector General—that we are doing everything possible. We are satisfied that our money is being watched over very carefully.

We are working closely as well with the government of El Salvador.
[The information follows:]

### IG AUDITS ON EL SALVADOR

The following is a list of audits by the Office of the Inspector General concerning AID programs in El Salvador during this fiscal year: Audit 82-2, transportation restoration project, dated October 30, 1981; audit 82-4, agrarian reform credit, dated December 17, 1981; and audit 82-5, private sector support program, dated January 20, 1982.

### INPUT FROM SALVADORAN GOVERNMENT

Senator KASTEN. What kind of input do they have?

Mr. REICH. Do you mean the government of El Salvador?

Senator KASTEN. Yes.

Mr. REICH. There are consultations constantly between the AID mission and the Ministry of Planning, the Ministry of Economy, two land reform institutes, the Ministry of Agriculture, and all of the institutes and agencies of the Salvadoran Government with which we have relations and cooperative agreements.

There is a whole range of cooperative programs. The AID program in El Salvador is a significant one in relation to the country's economy, so the Salvadoran Government makes sure there is good communication.

### OTHER DONORS TO EL SALVADOR

Senator KASTEN. What other countries in the region, are contributing foreign assistance in any form to El Salvador; are any other countries contributing?

Mr. REICH. Both Mexico and Venezuela have contributed to El Salvador through their oil facilities. This is perhaps one item that has been overlooked in the political debate. Mexico, to the best of my knowledge, has not suspended the assistance which it has provided to El Salvador under the oil facilities. Most countries in Latin America are not aid donors for the most part, so it would not be typical for them to provide assistance to another.

Mexico and Venezuela, who are well on their way to being advanced development countries, have provided assistance.

Senator KASTEN. What about the World Bank or the Inter-American Development Bank, are there loans in their portfolios going to El Salvador?

Mr. REICH. Yes; the IDB, the World Bank, and the IMF have been working in El Salvador. Obviously, there have been problems in El Salvador which do not exist in other countries because of the security situation. Perhaps the loans have not moved as quickly as they might have under other circumstances.

These three major international financial institutions have been active in El Salvador.

### NICARAGUA

Senator KASTEN. Let me switch to Nicaragua for a second. There is no program for Nicaragua in fiscal year 1983; is that correct?

Mr. REICH. We have not allocated any money in our fiscal year 1983 budget request. The authorization committee did earmark $20 million of ESF assistance for fiscal year 1983, but not the Appropriations Committee.

Senator KASTEN. When I was visited by State and AID officials a couple of months ago, they indicated a reprograming for Nicaragua would be coming up. We have not received it. Is there going to be a reprograming request for Nicaragua, or has that been delayed indefinitely?

Mr. REICH. You may be referring to fiscal year 1982 funding. There was an authorization by the authorizing committees to obligate an amount up to $20 million of ESF. We are considering $5,100,000 of that $20 million for Nicaragua if the waiver, which is required, is signed. There are no plans to give any money to the government of Nicaragua, but we do plan to use $5,100,000 of economic support funds and $1,800,000 of development assistance already in the budget for the private sector.

Senator KASTEN. You are still planning on the waiver?

Mr. REICH. It is a waiver.

Senator KASTEN. We have a differing opinion of whether it is a waiver or not.

Mr. REICH. A waiver is required because of the Brooke-Alexander amendment. The government of Nicaragua has been in arrears for more than 1 year in repayment to the United States of loans. The waiver is required.

Senator KASTEN. Whether or not a reprograming is required is a judgment that we have to make.

Mr. REICH. We intend to consult with the Congress at every step when it comes to this very important subject.

Senator KASTEN. Have the Miskito Indians been able to move back into their native area along the east coast and the western corner of Nicaragua?

Mr. REICH. Not to our knowledge. I understand they are living in something like concentration camps in areas away from their traditional locations.

## NICARAGUA AND THE SOVIET UNION

Senator KASTEN. A week or so ago the Washington Post carried an article concerning a top mission by the Nicaraguan government to Moscow. How do you view that mission? Do you know yet anything about the results? My understanding is that there was tentative agreement made for both economic and possibly military assistance.

Mr. REICH. All I know is what has been reported in the papers, which really has not been very definitive. I do not know what concrete assistance the Soviets are planning to send to Nicaragua.

Senator KASTEN. If that goes forward, under any circumstances it further solidifies the Nicaraguan ties essentially as a Cuban or Soviet proxy, or we can also say a Cuban or Soviet satellite. The relationship seems to be getting closer.

Do you have any more information as to direct ties with Moscow rather than the indirect ties we have seen before with Cuba?

Mr. REICH. We don't have any more information, but I think your assessment is probably correct. If there were any official agreement of a military assistance nature, the indications would be very clear that this is contrary to what would be in our best interests and contrary to what the Nicaraguans have been saying—which is that they would like to have good relations with the U.S.

### IG REPORTS

Senator KASTEN. As the Assistant Administrator for Latin America, do you make a point of trying to review all the reports issued by the AID Inspector General on programs under your jurisdiction, and specifically can I get your assurance that you will act on the Inspector General's semiannual report and on those recommendations issued on March 31 as soon as possible, so as to get these recommendations closed?

They testified before this committee and the committee is concerned that the recommendations of the Inspector General be implemented as quickly as possible.

Mr. REICH. Yes, sir, I make it a point to review the IG reports. I don't know specifically which ones you are referring to, but I assure you I will work with you to make sure that we do comply with them.

### SUBMITTED QUESTIONS

Senator KASTEN. Fine.

I would like to thank you for your testimony and response to questions. There may be additional questions by the committee. We hope you can get them back to us within an appropriate period of time.

[The following questions were not asked at the hearing but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### NICARAGUA

Senator Kasten: We have been informed by the State Department that they had agreed that a formal reprogramming would eventually be sent up to us on the $5 million Nicaragua private sector proposal. Your oral testimony was not clear in this regard.

Do you have a different understanding.

Mr. Reich: The Administration intends to furnish approximately $5.1 million in Economic Support Funds to private and voluntary organizations and cooperatives operating within Nicaragua. This assistance is permitted under section 123 (e) of the Foreign Assistance Act and has previously been justified to the Congress in the FY 1982 Congressional Presentation. Because of your expressed interest, we will advise both appropriations committees of our plans to utilize this section, and we will not obligate any of the funds until 15 days after we have so advised the committees.

### AMERICAN SCHOOLS AND HOSPITALS ABROAD

Senator Kasten: Part of this PVO proposal would make more money available for the American Schools and Hospitals Abroad program (Congress provided $13,400,000 more than was requested).

To your knowledge, does ASHA support this, and do they need still more money?

Mr. Reich: The American Schools and Hospitals Abroad (ASHA) program does not support an earmark of funds for American-sponsored institutions in the Caribbean Basin. For fiscal year 1983, seven applicants have requested $6.7 million in ASHA assistance for projects in the Caribbean Basin. These applicants should compete for funds appropriated specifically for the ASHA program under Section 214 of the Foreign Assistance Act.

### INTER-AMERICAN FOUNDATION

Senator Kasten: I also understand that the PVO proposal would make more money available to the Inter-American Foundation.

Do they support this increase?

Mr. Reich: The PVO proposal would make available an additional $3,000,000 for use by the Inter-American Foundation (IAF) to support indigenous Caribbean Basin organizations. This would represent a substantial increase over the $4,700,000 obligated by the IAF in the Caribbean Basin in FY 1981. It is our understanding that the IAF supports the President's budget which does not include this proposed increase.

### EL SALVADOR

Senator Kasten: What role will D'Aubuisson as leader of the constituent assembly have over the A.I.D. program vs. the president and executive branch of El Salvador?

Mr. Reich: Under the country's 1962 constitution, which is now once again in effect, the assembly ratified loans which the government proposed to sign, a fairly common procedure for developing countries in this hemisphere. We assume that, as leader of the assembly, Mr. D'Aubuisson will be involved in advice and consent on the A.I.D. program as provided for by the constitution. The assembly presumably will also ratify the government's budget and other major measures which affect the country's economy.

The great part of planning and implementation of A.I.D.'s program will be done with the executive branch and certain autonomous government agencies, such as the Central Bank. Our program is designed through collaboration with Salvadoran economists and technicians, and most implementation responsibilities rest with these same government representatives. We do not expect this process to change.

Senator Kasten: Is the Caribbean Development Bank or Facility contributing in any way to El Salvador?

Mr. Reich: No, El Salvador is not a member and receives no assistance from that source. The donors and developmental organizations which El Salvador presently deals with include the International Monetary Fund, the Inter-American Development Bank, the World Bank, the United Nations system, Canadian International Development Agency, and the Mexican/Venezuelan oil facility.

Senator Kasten: According to your justification material, one of the pressing needs in El Salvador is land reform.

Are you making use of the Land Tenure Center for work in this area?

Mr. Reich: During the early stages of the agrarian reform, the Land Tenure Center did send two staff members to El Salvador. However, the Center did not find that a continuing role in El Salvador was appropriate.

Most of the technical assistance which A.I.D. is providing to the reform program is supplied by Servicios Tecnicos del Caribe, a consulting firm located in Puerto Rico.

## JAMAICA

Senator Kasten: The success story in the Caribbean has been Jamaica. After over one dozen years that nation was nearly wrecked by the previous government, we now see signs of improvement.

Can you give us an update on the situation there, especially with respect to bauxite production, which does remain a problem.

Mr. Reich: Seven years of continuous economic deterioration in Jamaica ended in 1981. Real GDP growth in 1981 was 1.5%. This was the result of strong performance in construction, domestic agriculture and services. Tourism improved steadily during the year, and visitor arrivals were very strong at year's end. The inflation rate for 1981 measured by the consumer price index was close to 5%, the lowest rate of inflation Jamaica has experienced in a decade. (The last four years averaged over 25%.) The government sector decreased in absolute size. The balance of payments registered a small surplus--$9 million as compared with a $150 million deficit in the immediately preceding Jamaican fiscal year. Unemployment, however, still remains a problem. The year 1982 should be another positive one for the Jamaican economy with excellent performance from the tourism and construction sectors, modest increases in the real output of the manufacturing and agriculture sectors, and declines in the government and mining sectors.

Mining will be the only sector to show a significant decline in 1982. The industrial economies remain in recession, at least through the first half of the year, and world demand for aluminum remains low. Even with economic recovery in the major world economies, the Jamaican mining sector will not immediately benefit as recovery of aluminum sales historically lags behind overall economic recovery. The reduced production rates, which the Jamaican bauxite companies introduced after mid-year 1981, likely will be continued throughout 1982.

Senator Kasten: The subcommittee has received some interest by private concerns wanting to get involved in the private sector programs in Jamaica.

How is that particular program coming along vis-a-vis Jamaica?

Mr. Reich: As you may know, the U.S. Business Committee on Jamaica was organized in 1981 under the chairmanship of David Rockefeller to promote and assist private investment in Jamaica and strengthen the Jamaican private sector. Subcommittees are functioning for travel and tourism, banking and finance, small/medium business, agriculture, and energy and mining.

A Jamaican counterpart organization, the Prime Minister's Committee on Investment and Employment, has been established under the chairmanship of Carlton Alexander, a leading Jamaican businesman. Business committees have also been organized in Great Britain, Venezuela, West Germany and Canada. The U.S. Business Committee has played an active role in facilitating a number of investments, including ones in textiles, electrical equipment, and cigar manufacturing, and its work at the subsector level is expected to result in further investments over the next several years.

Jamaica National Investment Promotion, Inc. was established in 1981 and reports directly to the office of Prime Minister Seaga. Its mandate is to provide a centralized source of information and assistance to potential investors, both Jamaican and foreign. During the period January 1, 1981 to March 30, 1982, 50 new investment projects worth $43 million had been brought into production. Thirty of these projects were in manufacturing, fourteen were in agriculture, three in tourism and three miscellaneous.

With respect to A.I.D. support to the Jamaican private sector, in FY 1982, $62,5 million will be provided in balance-of-payments assistance, which will help in the financing of essential private sector imports of raw materials and spare parts. The proposed Caribbean Basin Initiative supplemental would allocate an additional $50 million in balance-of-payments assistance. In addition, under the FY 1982 development assistance program, a private agribusiness development project ($2.3 million) will strengthen existing agribusiness firms and stimulate the development of new, privately owned firms. A small business development loan ($2.1 million) will be carried out as an integrated approach to development of the small business sector of Jamaica. A basic skills training project ($1 million) will be initiated to provide marketable skills for unemployed youth. The agricultural marketing project ($4 million) will address serious inadequacies in the marketing system which create disincentives to domestic and export crop production.

In FY 1983, $77 million is proposed in balance-of-payments assistance. A major new initiative to support economic recovery would provide $3.8 million in investment funds for equity and debt financing for medium-sized Jamaican enterprises. The financing would enable the enterprises to improve their productive facilities. Additional funding is proposed for the small business, agribusiness, and skills training projects begun in FY 1982.

A.I.D. Private Enterprise Bureau has also singled out Jamaica for special attention to strengthen its private sector institutions. Among the several individual activities in support of the private sector revitalization, this Bureau is presently considering three or four investments, including a venture capital firm to stimulate new business formation and expansion.

## HAITI

Senator Kasten: Haiti continues to be the poorest country in the region, and yet we continue to have a relatively small program there.

Do I assume correctly that the small program is due primarily to the difficult time the U.S. has dealing with the Haitian Government?

Mr. Reich: The A.I.D. program in Haiti is one of our most intensively managed, not only because of institutional weaknesses within institutions of the Haitian Government, but because of the complex and interrelated development problems which this resource-poor country faces.

The A.I.D. program to Haiti in FY 1981 totalled $34 million. In FY 1982, A.I.D. is planning $36.5 million. For FY 1983, $44.7 million is proposed. These are not insignificant assistance levels when compared to Haiti's population or when compared to A.I.D. programs in other countries that are at a similar level of development as Haiti. In addition, U.S. financial contributions to international development agencies, such as the World Bank, Inter-American Development Bank, and the numerous United Nations development agencies, must also be noted when totalling U.S. financial assistance that goes to Haiti. In all, U.S. assistance to Haiti is considerable.

Senator Kasten: Is there any reason to be more hopeful with respect to Haiti?

Mr. Reich: While the difficulties of working in Haiti are very real, there is reason to be optimistic that development can take place. Since August 1981 and again in September 1981, President Duvalier announced a number of far reaching and quite significant reforms in the fiscal management system that respond to earlier management recommendations made by the International Monetary Fund (IMF). In February 1982, in part to accelerate the implementation of the reforms the Government of Haiti named a new Minister of Finance, new directors of the National Bank, and other key officials in the fiscal area. Since then, substantive reforms and changes have been set in motion which are generating higher levels of revenues and reducing expenditures and which rationalize operations of the National Bank and of customs operations. At the same time, the Government of Haiti is attempting to stabilize its financial situation and reduce public borrowing per the recommendations of the IMF. At the development project level, the Government of Haiti, with the assistance of A.I.D., is improving the implementation of its projects through closer forward planning, establishing agreed upon targets, and taking necessary corrective actions where called for.

## COSTA RICA

Senator Kasten: Assistance to Costa Rica is up two and one half times over current levels.

What has happened in that country which requires such dramatic increases in assistance?

Mr. Reich: Prior to the recent turmoil in Central America it seemed that Costa Rica, due to its successful development efforts, would be phased out as a recipient of concessional assistance. The program was small and declining. However, in 1980, Costa Rica entered its worst economic crisis in 50 years. For the past three years the current account deficit has been averaging about $500 million, or 12 percent of GDP. At the same time, public sector deficits have been running 10 to 12 percent of GDP. This crisis results from increasing costs of imported oil, a high level public and private debt which has been increasingly difficult to refinance at high interests rates, a decline in export prices, a withdrawal of working capital by foreign commercial banks, political turmoil in the region, and overexpansion of consumption and public sector expenditures. These problems create an overwhelming need for major structural adjustments before the new government will be able to stabilize Costa Rica's economy and provide the basis for a new path to economic growth. Our increased A.I.D. program assists Costa Rica in this effort by providing balance-of-payments support coupled with working capital to maintain private sector activity and employment, as well as support for an export promotion program. Our goal is to ease Costa Rica's adjustment to a viable open market economy while preserving the country's traditional democracy.

## GUATEMALA

Senator Kasten: Can you bring us up to date on the current situation in Guatemala?

Mr. Reich: The new military junta took power in a coup on March 23. It has publicly committed itself to improve the human rights situation, and violence attributed to the security forces has been drastically reduced below that prevalent under the previous government. The most notorious element of the security force, Commando Seis, has been disbanded. Regrettably, the insurgents have continued their attacks on innocent people. However, an amnesty has been declared for the period June 1 - 30, 1982, but it is too soon to elaborate on its success. We want to encourage these efforts and are hopeful that continued progress in the area of human rights will lead to an improved relationship between Guatemala and the United States.

To date our assistance has been directed at helping the government to develop the institutional capacity to deliver social services and outreach programs, to increase productivity in the poorest, most densely populated highland areas of the country, and in encouraging the private sector toward greater involvement in the country's development efforts. As the new Government of Guatemala develops its policies, we will be reviewing this strategy and desired levels of assistance for FY 1983 and beyond. However, as we see opportunities to reinforce the positive forces of change in Guatemala, we should be open to developing new and expanded programs.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### DEVELOPMENT AND ECONOMIC POLICIES

Senator Inouye: Mr. Reich, with reference to current conditions in Latin America and the Caribbean, you have stated, "In many cases, a legacy of unbalanced development and misguided economic policies has made political conditions more volatile."

Would you elaborate on this statement, having particular reference to one country and explaining what you mean by the term "balanced development"?

Mr. Reich: "Balanced development" has both economic and non-economic implications. It does not mean that all sectors or regions should be growing at the same rate. Examples of what it does mean are that countries should (1) avoid concentrating too many resources in one sector at the expense of others, (2) pay attention to the distribution of benefits among the population, and (3) take action to reduce extreme regional or urban-rural disparities. Extreme inequalities in the distribution of land, income, and political power were major factors leading to the overthrow of the Government of El Salvador in 1979, and these problems must be dealt with if the present crisis in that country is to be overcome.

Senator Inouye: What specific examples of "misguided economic policies" can you cite?

Mr. Reich: A number of misguided policies are common to many Latin American countries. A classic example over the last few decades is that many countries have stimulated their industrial sectors -- often through high-cost, import-intensive policies of import substitution -- while neglecting their agricultural sectors.

Ironically, this has often led to slower industrial growth than otherwise would have occurred because agriculture was unable to provide sufficient foreign exchange to purchase imported inputs needed by industry. Sluggish agricultural growth has also required more outlays of scarce foreign exchange for imported food and agricultural products. Nationalization or the creation and expansion of public sector enterprises has often discouraged private investment, and the performance of public enterprises has been inhibited by lack of entrepreneurial incentives. Other policies have attempted genuinely to improve the distribution of income and wealth but often have had precisely the opposite effect because their impact has been incompletely understood. For example, low interest rates for agricultural loans have tended to benefit large farmers more than the intended beneficiaries, the small farmers. Subsidization of petroleum products and public utilities tends to benefit middle- and upper-income groups much more than the poor. Agricultural price controls act as disincentives to production.

Senator Inouye: Do A.I.D. programs promote balanced development?

Mr. Reich: A.I.D. programs promote balanced development in a number of ways. Programs in education, health, and family planning provide more people an opportunity to develop their skills and talents, improve their capacity to provide for themselves and their families, and lead richer and healthier lives. In supporting directly productive activities in agriculture and industry, our programs are designed to alleviate bottlenecks and eliminate distortions that inhibit production, while at the same time ensuring that the benefits of increased production are equitably shared among the population.

Senator Inouye: How does A.I.D. influence the choice of appropriate economic policies in, for example, Haiti?

Mr. Reich: Our projects and programs in Haiti and other countries have been tied to significant policy changes as appropriate to the sector or activity being assisted. While we cannot dictate policy changes to sovereign nations, we can and have made clear that the amount of assistance will be directly related to a country's willingness to help itself through appropriate policy measures. We believe that the establishment of a broad-based policy dialogue in A.I.D.-assisted countries is the most effective way to induce policy changes. This is necessarily a long-term strategy, but it is important that governments themselves come to recognize that policy changes are in their interests. Once this recognition occurs, commitment to policy changes follows naturally.

## PRIVATE SECTOR

Senator Inouye: It is frequently alleged that U.S. private businesses, because of the strong role they have played in Central America, have encouraged unbalanced growth.

What are your thoughts on this subject?

Mr. Reich: In some Latin American countries, a few very large multinational corporations undertook investments in products which eventually became major foreign exchange earners for those countries. As a result, these corporations often became an important economic and political force in countries where they operated. Also, they were frequently a major employer. Naturally when corporations dominate the economies in communities or countries where they operate, problems can arise. In the case of some of these corporations, problems have stemmed from low prices for the products which they sell, prices over which the firms themselves may have had no control.

I don't believe U.S. private businesses directly contributed to unbalanced growth. Rather, unbalanced growth may have occurred as a result of the lack of diversity in the economies of Central America. There are hundreds of U.S. firms with small- to medium-sized investments in Central America; many of these investments have been undertaken with local partners. The investments have led to more diversified economies and balanced growth.

Senator Inouye: How will A.I.D. ensure that private sector approaches contribute to balanced development?

Mr. Reich: The CBI will provide incentives aimed at diversifying and deepening the economies of the Basin countries. A.I.D. will focus on policy matters designed to establish favorable investment climates, and at the same time, we will work primarily with small and medium-sized enterprises owned by residents of the region. We will also seek to strengthen the non-profit associations of businessmen with the intention of utilizing these groups as vehicles through which to deliver training and technical advice and to introduce new technologies.

## HAITI

Senator Inouye: In November of 1977, former Senator Edward W. Brooke reported to the Committee the conclusions he formed as a result of a study mission to Haiti. Among his conclusions were the following:

"There are still recurring instances of government disregard for basic procedural safeguards for individuals guaranteed by the Haitian constitution. Too little attention has been given to the need to reduce opportunities and incentives for corruption. Press freedoms are still minimal. Failure to fiscalize a large percentage of governmental receipts makes it impossible to judge accurately the level of GOH commitment to the development needs of the country."

Do these findings accurately portray conditions in Haiti today?

Have there been any significant improvements in Haiti since Senator Brooke's visit?

Mr. Reich: There have been numerous improvements in Haiti since Senator Brooke's visit in 1977. Earlier in 1982, a major reorganization of fiscal controls was instituted by the Government of Haiti which has resulted in more stringent expenditure and revenue procedures. Also, certain government operations previously outside the fiscal control of the Haitian Government have been brought under the Ministry of Finance revenue controls. Press freedom, although expanded considerably in 1979, was subsequently reduced the following year. Basic procedural safeguards for individuals, although guaranteed by the Haitian constitution, are at times erratically respected. Since the beginning of 1982, however, there have been several positive developments in human rights. Prison reforms have been undertaken. In April of this year, President Duvalier pledged a new liberalization program and approved the establishment of an Institute for Democracy for Haiti. Since then, the Government of Haiti has announced its intentions to hold open and free elections for municipal councils in 1983. More recently, the Haitian Supreme Court ruled that previous convictions of certain political activists had been conducted improperly; retrials will be scheduled. While Haiti remains an authoritarian state, the government does not restrict the right to assemble peacefully or impede domestic movement of its citizens. The Department of State has certified to the Congress that there is no evidence of any mistreatment of illegal migrants returning to Haiti.

## CARIBBEAN GROUP FOR COOPERATION IN ECONOMIC DEVELOPMENT

Senator Inouye: I am interested in learning more about the Caribbean Group for Cooperation in Economic Development.

Which countries are donor members of this group? Which are recipients?

Mr. Reich: The Caribean Group comprises approximately 39 member countries and 26 international financial institutions. The donor members include the United States, the United Kingdom, Argentina, Austria, Brazil, Canada, Colombia, Finland, France, Germany, Japan, Mexico, Netherlands, Norway, Spain, Sweden, Trinidad and Tobago, and Venezuela. Recipient countries are designated as Antigua, Bahamas, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Lucia, Suriname, the British dependencies of Montserrat, Turks and Caicos, and British Virgin Islands, the Cayman Islands, and the Netherlands Antilles. It is important to note also that donor countries in the region, such as Trinidad and Tobago, while not being a recipient of aid flows, may benefit from several of the Caribbean Group initiatives, particularly with regard to the private sector.

Senator Inouye: When was this group organized?

Mr. Reich: With strong U.S. support and encouragement, the Caribbean Group for Cooperation in Economic Development was officially formed in December 1977, with the World Bank as the Secretariat of the new organization. The first meeting of the Group was held in June 1978 and proved to be so successful that subsequent meetings of the full membership of the Caribbean Group have been held each year. In addition, special meetings are held by the donors, the recipients, and the steering committee throughout the year. The Group was established to help the Caribbean countries to meet their immediate financial needs and to improve their long-term development prospects. The group was expected to: (1) promote emergency balance-of-payments financing, (2) to promote project-related development assistance, (3) to coordinate external technical and financial assistance, and (4) to promote increased regional cooperation.

Senator Inouye: Do the donor member countries co-finance development projects?

Mr. Reich: In some instances, donor nations have collaborated on projects as a result of Caribbean Group efforts. An excellent example would be the recent formation of a consortium of donors to reconstruct and rehabilitate the road network on the small island of Dominica in the Eastern Caribbean. Following the massive destruction caused by Hurricane Allen, the third major hurricane to hit Dominica within a two-year period, the country's Prime Minister made a strong appeal at the annual Caribbean Group meeting to the donor community for assistance in rehabilitating the road network. Under World Bank auspices, several donors, including the Canadians, the British, the Caribbean Development Bank, with funds from West Germany, the European Development Fund, and the United States, have agreed to provide financing for repair of selected priority segments of the road system.

Senator Inouye: What mechanisms has the Group developed to ensure coordination of assistance?

Mr. Reich: The Group has established several techniques for coordination of economic assistance flows. Frequent meetings are held between donor nations and recipients to discuss proposed projects. The World Bank, in collaboration with the recipient country government, prepares an annual economic report on each of the Caribbean countries, including an investment program, and distributes copies to Caribbean Group members. The economic report identifies ongoing projects and their sources of funding and potential donors for the projects under the investment programs. For the Eastern Caribbean less developed countries, a World Bank-led field mission is being established in Antigua to better coordinate assistance efforts there.

## CONCLUDING REMARKS

Senator KASTEN. I would like to thank you. It has been a privilege and pleasure to work with you over the past year. I think we are making some real progress. I look forward to working with you over the next year.

Mr. REICH. Thank you. I would like to add that it has been a pleasure to work with you and Mr. Bond. We also look forward to continuing our cooperation with you.

Senator KASTEN. Thank you.

## BUREAU FOR ASIA

## STATEMENT OF EUGENE S. STAPLES, ACTING ASSISTANT ADMINISTRATOR

### INTRODUCTION OF WITNESS

Senator KASTEN. The next witness is Mr. Eugene S. Staples, Acting Assistant Administrator, Bureau for Asia, Agency for International Development.

Mr. Staples, welcome. We look forward to your statement. The entire text of your statement will be made a part of the record. We hope you can summarize briefly.

### SUMMARY OF STATEMENT

Mr. STAPLES. Thank you, Mr. Chairman.

The U.S. Government and the American people have a long and honorable history of involvement in the post-World War II economic, social, and humanitarian development of this very large and very different part of the world. I believe that we have a great deal to be proud of in the American contribution to development in Asia.

The request before you provides for a program which is roughly at the same level as fiscal year 1982, with the major exception of Pakistan, which is at a higher level in accordance with the multiyear development plan in regard to economic and security factors which have been discussed with the U.S. Congress in the past year.

Our statement notes that a considerable degree of economic progress has occurred, particularly in Southeast Asia, but that there remain severe problems of poverty in the subcontinent.

The programmatic emphasis reflects the major problems of agricultural and renewable natural resource development throughout the region. It addresses the large problem of continuing high rates of population growth, and reflects a concern for some relatively new issues, such as energy development in the region.

In our presentation we have tried to reflect the priorities of the administration in regard to private sector development, institution building, emphasis on science and technology, and a concern for the economic policies of the host countries with which we work.

That concludes my summary.

Senator KASTEN. Thank you.

[The statement follows:]

## PREPARED STATEMENT OF EUGENE S. STAPLES

Mr. Chairman and members of the subcommittee, I welcome the opportunity to appear before this subcommittee to discuss the administration's budget request for fiscal year 1983. The administration is requesting $407.6 million in development assistance funds, $335.7 million in Public Law 480 and $235 million in economic support funds for Asia. These levels compare with fiscal year 1982 levels of $398.7 million in development assistance funds, $346.2 million in Public Law 480 and $155 million in ecomomic support funds. This assistance will aid in the economic development of Burma, Bangladesh, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, the island states of the South Pacific and the ASEAN community. The requested funding levels for the Asia region will provide resources to continue most country programs at approximately the same levels as fiscal year 1982 and to expand the high priortiy program in Pakistan from a level of $100 million (ESF) and $64 million in Public Law 480 in fiscal year 1982 to $175 million in economic support funds, $25 million in development assistance and $53.3 million in Public Law 480. These economic development assistance programs are essential elements of the President's integrated military and economic assistance program to promote U.S. security and economic interests abroad in fiscal year 1983.

The congressional presentation which we submitted in February contains detail on the proposed programs. I will briefly set forth the need for this assistance and then discuss our efforts to make effective use of the funds which you appropriate.

### IMPORTANCE OF ASIAN DEVELOPMENT

The development and modernization of Asia are policy matters of major importance to the American people and to the U.S. Government. Asia contains 51.8 percent of the world's population, possesses vast human and natural resources, and is the seat of two of the world's most remarkable civilizations.

The United States has fought three major wars during my lifetime in Asia. Today most of the Asian continent is relatively stable and at work for peaceful purposes, although one must deplore the unfortunate exception of the Indochinese peninsula and the bitter Soviet occupation of Afghanistan, the United States can take pride in its contributions to the process of stabilization and development which has characterized the post-Vietnam war period in Asia. Our economic assistance programs have been a major contributor to that process.

Both the United States and the Asian nations benefit directly from this continuing process of economic growth and political stabilization. United States-Asian (excluding Japan) trade has been growing over the past 10 yers at an annual rate of 20 percent. U.S. direct private investments in Asia (excluding Japan) now total $8.4 billion. The ASEAN states in particular are domonstrating extraordinary capacity for growth. The five states which comprise ASEAN are gowing at an average annual rate of 6.8 percent at a time when the economies of other countries are generally stagnant.

In spite of these positive trends in Asian development, poverty is pervasive. The basic social and economic indicators point to the developing countries of Asia as among the very poorest. According to the World Bank, the Asia region contains about 75 percent to 80 percent of the world's poor, that is, those living below a nationally defined income level needed to maintain minimum food and other basic consumption standards. The percentage of poor people in the region ranges from 30 percent in Thailand, equivalent to 14 million people; to 50 percent in India, equivalent to more than 310 million people; to 86 percent in Bangladesh or 87 million people. The average annual per capita GNP for the Asia region is only $224, compared to $278 for Africa, $769 for Latin America, and $970 for the Near East. Two countries—Bangladesh and Nepal—are included in the least developed category with yearly per capita incomes of $90 and $130 respectively, while India, Indonesia, Pakistan, and Sri Lanka are categorized as low income countries.

Even the extraordinary growth rates of the ASEAN nations as yet have not significantly altered the poverty of the rural majorities in such countries as Indonesia and the Philippines, populations living in isolated and usually resource-poor regions. Asian population growth continues at rates considered far too high by the governments of the region. Health, nutrition, and unemployment problems arising from an inadequate agricultural production base burden the populations.

## AID PROGRAMING

AID programing in fiscal year 1983 is designed to take into account successes and failures of the past—AID's own record, that of other donors and the record, of course, of the Asians themselves—and of demographic, economic, social, and institutional realities of the 1980's. AID arrives at its program decisions on the basis of macroeconomic analysis and through an intensive effort to learn from program evaluations. (This past year, AID conducted 40 program evaluations in Asia in addition to the numerous audits conducted by the Inspector General's Office and by the GAO.) We believe that AID's ability to improve, design, and implement projects on the basis of evaluation findings is improving.

Our planning for fiscal year 1983 provides a new initiative, private sector development, while continuing to emphasize programs for reducing population growth rates, improving agricultural production and protecting the natural resource base. With the addition of this important new emphasis on the private sector we believe that our assistance addresses Asia's basic problems in areas which offer the greatest potential returns for development.

The more salient of the Asian realities underlying our programing for fiscal year 1983 are:

First, an increasing recognition of the dynamism of the Asian private sector. One of the most timely new emphases in AID's program is private sector development. The objective is to encoursage the development of Asian private enterprise initiatives, with particular focus on small- to medium-scale enterprises, labor intensive rather than capital intensive methods and preferably with an agricultural connection. Although this program is in an early stage of planning, it is important to note that the Asian nations themselves, increasingly are sensitive to the potential contained in their own private sectors. There is wide disillusionment in Asia with the record of public sector solutions to development problems. Therefore, the new AID initiative is finding a receptive climate. Four of the ten nations chosen by AID worldwide for an intensive effort in private sector development are in Asia—Sri Lanka, Thailand, Indonesia, and Pakistan. We have sent reconnaissance missions composed of American business executives and AID officers to these countries for preliminary explorations. Some of the areas they are looking at include: Following up with potential U.S. investors on agro-industrial opportunities such as a potential sugar refinery in Sri Lanka; establishing training programs to overcome the general dearth of middle management talent; and facilitating the flow of information on the investment climate to potential United States and indigenous investors. Other possibilities include helping to establish capital and commodity markets and the creation of intermediate financial institutions for private sector investment.

A second salient reality is demographic. In spite of the highly encouraging record of some of the Asian societies in reducing population growth rates over the past decade, the Asian governments remain convinced, with few exceptions, that their populations are growing too fast and that this creates increasingly unacceptable pressures on limited natural resource systems. Generally, the problem is most serious in those countries which have the largest populations. India, Bangladesh, and Pakistan, for example, contain a total population of 873.9 million people. The annual population growth rate in India is estimated at 2.2 percent, in Bangladesh at 2.5 percent, and in Pakistan at 2.9 percent. In Indonesia, which has a remarkably successful family planning program in heavily populated Java, the growth rate has decreased from 2.7 percent in 1970 to an estimated 2.1 percent today. Thailand has succeeded in bringing its growth rate down to 2 percent in 1980 from 3.1 percent in 1965.

The point, of course, is that helping those societies which are dedicated to reducing population growth by methods culturally acceptable to the societies themselves continues to be an important objective of United States foreign assistance. Accordingly about 15 percent of the funds requested for Asia are to continue population planning projects. AID is working to improve upon past efforts. In Bangladesh, an evaluation of a family planning project in late 1980 resulted in changes in the design of a successor project. Evaluation of local family planning officers' training resulted in improvements in curriculum and logistic arrangements, and in the improved performance of these population officers.

In Thailand, a population project evaluation uncovered growing deficiencies in the Thai Government's supply of oral contraceptives. With this data, the mission was able to intercede successfully with the health ministry—and, perhaps even more importantly, with the planning board and budget bureau—to obtain a twelve-fold increase in the government budget for oral contraceptive procurement. This budgetary allocation combined with continuing AID assistance puts the national family planning program on a much sounder footing. The government's budget policy shift and reallocations would have been unlikely without the well-documented findings of this evaluation.

A third salient Asian reality is the continuing need to increase agricultural production: nearly 70 percent of the development assistance funds requested are for agriculture and rural development. The achievements of the 1970's in regard to rice and wheat are highly satisfying to those Asian nations we are assisting. This should also be a source of pride to the U.S. Government, which played an important part in the research and training efforts underlying the wheat and rice green revolutions. But to achieve and to go beyond self-sufficiency to that point where the agricultural sector becomes a genuine engine of development for the very large poverty stricken rural populations is as yet only an unfulfilled dream in most of Asia.

AID's concentration is on those factors of production which are likely to generate significant increases in productivity. In addition to its continuing support for Asian agricultural science, AID is an important partner in major, new Asian efforts to improve the productivity of vast irrigation systems which dominate the South Asian subcontinent and on a lesser scale the Southeast Asian nations. Improving water management is a complex, multidisciplinary, challenge that no one has really mastered in the Asian context. With the cooperation of the Asian nations our work in this field is likely to be one of the most important Asian development enterprises of the decade.

A relatively new element in AID programing also corresponds to the demographic and natural resource requirements of the Asian nations. Called social forestry, agroforestry or energy forestry, the objectives are to stop and to reverse the degradation of forests and uplands, and to bring to very poor villagers increased access to energy and income. The benefits are multiple, including downstream improvement of watershed, irrigation and power systems, and ultimately coastal fisheries. We are also working with a number of Asian governments on energy policies. These concern conventional as well as nonconventional energy sources.

All these programs involve institution building, development and transfer of science and technology, and genuine innovation and experimentation. In Indonesia, a consortium of American universities is at work in the outer islands creating a network of agricultural research and training institutions that will provide programs relevant to the distinctive agro-climatic conditions of these islands. In India, an imaginative cooperative program is using a highly successful dairy cooperative model developed earlier to create a system of oil seed cooperatives which are designed to overcome India's large imports of vegetable oil and improve the income of small farmers. AID's development assistance funding is channeled through the Cooperative League of America and is integrated with the use of Public Law 480 commodities.

AID's Asian programs also give wide support to both American and indigenous Asian private voluntary agencies, which are capable of reaching poor people at the village level. The small, innovative AID program in the South Pacific, for example, is carried out mostly through U.S. private voluntary agencies. In a number of other countries, AID provides cofinancing for self-contained PVO activities in AID priority development fields.

Although in relative terms, AID programs are smaller than they were in the previous two decades, their concentration on key problems and the presence of AID field mission staffs give us the ability to discuss constructively a number of host country economic development policies. In Bangladesh, for example, the government and the AID mission have worked together to use Public Law 480 commodity programs to increase private sector participation in fertilizer distribution—with notable increases in distribution and usage. In Thailand, the Ministry of Public Health decided to focus its health sector strategy on nutrition programs at the community level, as the result of a joint Thai-AID health program.

The administration's budget request for Asia is founded on sound developmental principles which address our vital interests in the region. An essential part of this endeavor is the close cooperation and consultation between the Congress and the executive branch. This subcommittee has traditionally played an extremely constructive role in this regard, and I look forward to continuing the relationship. Thank you.

### PHILIPPINE ESF PROGRAM

Senator KASTEN. Mr. Staples, the staff of the Senate Foreign Relations Committee called to our attention a problem with the Philippine program. It seems that $18 million of either fiscal 1980 or 1981 funds that were made available for school projects were wrongly deposited in an interest-bearing account, the advantage of which accrues only to the Philippine Government.

Do you know about the situation, and what has been done to correct the situation?

Mr. STAPLES. I am informed about the situation. This was part of the economic support fund, ESF, program in the Philippines, a program agreed to between the Philippine Government and the U.S. Government as part of the overall arrangements for the U.S. bases.

As I understand the problem, these funds were, in fact, transferred for these purposes to the Philippine Government, which was charged with carrying out the project. Interest has been earned on the funds. Our auditors have looked at the project and have reached the conclusion that the deposit of these funds representing interest gained was a legal and correct thing for the Philippine agency to do, and that these funds may be used for further construction of schools.

Senator KASTEN. In your opinion, they had the ability to divert them temporarily as long as the end result was for the use of the schools; is that what you are telling us?

Mr. STAPLES. We were not informed about this initially. We became aware of this through an audit of the project. This matter was then discussed and the conclusion reached which I described to you.

### REPORT ON ECONOMIC SUPPORT FUNDS

Senator KASTEN. By your auditors or general counsel? The subcommittee's understanding is that the conclusion you are referring to was reached by the general counsel, not by the auditors. We will follow up on this, if we can, with you. The subcommittee would like to have a full report for the purposes of the record. I am sure you are not familiar with all the details..

[The information follows:]

### PHILIPPINES—ECONOMIC SUPPORT FUNDS

The $18 million in fiscal year 1980 economic support funds (ESF) provided to the Philippines for elementary school construction is being properly used. As of April 30, 1982, virtually all the project school buildings had been constructed.

At the time of the 1979 amendment to the military bases agreement with the Philippines, and subject to appropriation, President Carter pledged that the United States would provide $200 million of ESF during the period fiscal years 1980–84. Under procedures that have been used since then, development projects have been jointly designed and approved by the two governments. The United States annually transfers dollars to the Philippine Government in the amount of the estimated peso costs of that year's projects, and the Philippine government in turn appropriates an equivalent amount of pesos which is provided for those projects.

Through this process the United States accomplished two objectives: satisfying the presidential commitment made in 1979 and funding mutually agreed upon development projects. The United States required the Philippine Government to place its pesos in a special account to insure that the pesos would be available as needed for the agreed projects. While in the special account, the government's pesos earned interest. Since the funds involved did not belong to the United States, it has no claim to the interest. Although the procedure established, that is, to mutually agree to disbursements from the special account, was not followed in that the pesos remained in the account, the Philippine Government made available on a timely basis other pesos as needed by the projects which now have been completed. In retrospect, we believe the special account was an unnecessary and confusing device to insure that the pesos would be available as needed for the agreed projects. The Philippine Government has an appropriation, budget and allotment process similar to our own, and we are confident that the Philippine Government will provide pesos as agreed without the special account.

## BACKGROUND

As an adjunct to the 1979 amendment to the military bases agreement with the Philippines, the United States undertook, inter alia and subject to congressional appropriation, to provide $200 million of ESF assistance over a period of 5 years.

In July 1980, the U.S. Government and the Republic of the Philippines entered into an agreement under which the United States transferred $18 million of ESF to the Philippine Government which in turn agreed to use an equivalent amount of its own pesos to finance the construction of approximately 850 three-room elementary schools and 12 ten to eighteen room elementary schools in the Philippines. The purpose of this agreement was to satisfy partially the U.S. commitment made at the time of the 1979 amendment to the military bases agreement, and to insure support for the Philippine Government's school construction program. As of April 30, 1982, all three-room schools were completed and 11 of the 12 larger schools were completed. In fact, 25 to 35 additional three-room units may be financed out of savings realized during construction. Furnishings have been provided to 400 of the schools. Satisfactory progress toward project completion is being achieved.

In response to a draft Agency for International Development (AID) audit recommendation, the AID General Counsel's office ruled that "no interest was earned on the funds owned by the United States and paid to the grantee. The AID grant was made in dollars. The interest at issue was earned on pesos owned by the government of the Philippines (GOP) prior to transfer of the dollars by the United States, and the pesos continued to be owned by the GOP after the pesos were transferred into the special account. The United States did not purchase or acquire those pesos. Rather, the United States required the GOP to use its own pesos for mutually agreed purposes. . . . In conclusion, AID's sole purpose with respect to the GOP-owned pesos was that pesos be available at the appropriate time to finance elementary school construction. I understand that this purpose has been substantially accomplished. The GOP's earning interest on its own money in the interim was not, nor should it have been precluded by AID. The critical point is that the pesos always were part of the GOP's revenues and not currencies appropriated by the United States or currencies purchased with U.S. dollars."[2]

## AID TO INDIA

Senator KASTEN. India is again slated to receive substantial funding from the AID program, one of the very highest programs. How can you justify such a huge program to a country which continuously opposes us in nearly every international forum, which continues to speak out against our interests and the interests of the free world and, frankly, evidently is wealthy enough, or close to being wealthy enough, to hold substantial amounts of U.S. securities in its own portfolio? How can you justify this?

Mr. STAPLES. I think that the general question of the economic and social development of India is a complex subject. India, in many respects, remains a very large and extremely poor country. I think the case which the U.S. Government has made for decades, that pervasive poverty is one of the factors that we look at in regard to development, is certainly there in the Indian case.

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[2] Memorandum from AID's GC/ASIA to Inspector General Beckington, April 7, 1982.

The per capita GNP still remains at a very low level. It is true that there is also a well-developed private sector in the Indian economy and the Indians are capable of doing a great many things for themselves in terms of industrial development.

It is also true, in our opinion, that the overall relationship between the Indian people and the American people, and between their two governments, is an important one for the United States. India is by far the major power in Asia with the exception of Japan and China. It plays a very large role in the politics of the subcontinent. In our view, it has in the last year or so taken a number of steps which are encouraging from a developmental point of view.

The Government over the past year or so, for example, has taken a number of initiatives in regard to economic policy reform which look very encouraging to us. India-U.S. trade is at a high level and continues to increase, $3 billion a year both ways now.

We believe that the assistance which we are giving to the Indian Government is being well designed and very well targeted on problems of large significance in India—the improvement in management of the irrigation systems and in renewable natural resources. There is also some hope, I believe, that the overall relationship between the two countries may develop in a more positive direction over the next year or so.

Senator KASTEN. You said that you had seen some positive economic development. Have you seen any positive political development in any of the international forums or any statements made by representatives of the government?

Mr. STAPLES. I have not.

Senator KASTEN. I have not.

Is it true that India does in fact hold substantial amounts of U.S. securities in different forms?

Mr. STAPLES. I am not precisely informed about that. I have heard that that is so.

### INDIAN FOOD EXPORTS

Senator KASTEN. Is India still exporting food?

Mr. STAPLES. India from time to time exports food, either in the form of barter arrangements or to pay back debts, as was the case, I believe, in a shipment of wheat to the Soviet Union. On balance, it is very hard to say though that India has become a net exporter of food.

Senator KASTEN. I am sure they cannot be a net exporter. There is a concern that they have been exporting food, they have been exporting grain, to the Soviet Union. Are they still providing aid to Vietnam?

Mr. STAPLES. I believe they are.

Senator KASTEN. It seems to me that this is contrary to our best interests, to our national interests. Do you agree?

Mr. STAPLES. I think certainly that particular instance would be contrary to our U.S. interests. I would say on balance the maintenance of the best possible arrangements that we can work out with the Indian Government are very much in the U.S. interest, because I think that the long sweep of history will show that in fact the Indians and Americans have a great many things in common.

While there are a number of flaws, it still is a democratically elected constitutional government. In many respects it is committed to a western path of development, even though it chooses to follow its own light as far as its foreign policy is concerned.

Senator KASTEN. Have you or other representatives of the AID challenged the Indian Government on any of these points and protested formally or informally about exports of grain to the Soviet Union or about continuing aid to Vietnam? Have we brought these subjects up before the Indians in either a formal or informal way, and if so, to what degree of forcefulness have we been able to declare ourselves?

Mr. STAPLES. I believe that has happened. I have not, myself, done so. I would be surprised if this has not been done at the political level, probably by the State Department. I can certainly try to find out and answer that question.

[The information follows:]

### U.S. PROTESTS TO THE GOVERNMENT OF INDIA

The United States has not formally or informally protested India's export of grain to the Soviet Union or its assistance to Vietnam. There are many countries with whom we have friendly relations who have exported grain to the Soviet Union or provided assistance to Vietnam.

Senator KASTEN. It is a concern that the subcommittee has, that at a time when we are under a budgetary constraint in proceeding with all the domestic programs, it is difficult for working men and women throughout our country to understand the activities of a country like India under the present circumstances. We are sending huge amounts of money to that country. We will be following that up with the people at the State Department.

### POPULATION PROGRAMS

You mentioned the population programs. Some of the most successful population programs financed are in your areas of responsibility, your region. Specifically, we understand that is true particularly for Indonesia and Thailand. We are concerned, in view of the success of these programs and evidently the continuing need, why you are cutting back on these programs?

Mr. STAPLES. Overall, it is not our intention to cut back on the very major emphasis on population programs Asia-wide. I believe in the Indonesian case a major reason for the planned reduction in funds is the fact that the Indonesians are about to begin, first of all to buy their own contraceptives, and later on to produce them.

We have given them some technical assistance to help them get into the production business. I think we will find over the next several years in countries which have achieved a national capacity either to buy the supplies that are necessary or to manufacture them themselves, that a very large part of the AID funding in population that has gone into supplies will see a dropoff. That would seem to be desirable.

Senator KASTEN. You are suggesting overall the program is not necessarily being cut back; it is that our direct involvement is lessened, but indirectly the program will continue and might possibly expand?

Mr. STAPLES. That is correct.

In addition to that, I would add that we are active in two of the most important countries in regard to population—which are India and Pakistan—because they have enormous populations and quite high rates of population growth. In the case of India, Mrs. Gandhi's government, which was badly burned on the population issue some years ago, as you may recall, has recently decided to place a high domestic priority on population programs.

We are, I think, going to go up in population funding in India in the next couple of years.

In the case of Pakistan, which has an exceptionally high growth rate of about 3 percent, where we have been absent in the last several years from the family planning program, we are embarking on two major new enterprises in the population field in this coming year.

## IG OFFICE IN PAKISTAN

Senator KASTEN. Let me talk a little bit about Pakistan. In general, we would like more detail on the program there, exactly what the money will be spent on.

We see that you are asking for a significant increase in the Pakistan program. We are concerned that it comes at a time when the necessary auditing coverage, at least at this stage, has not yet been allowed back into that country.

Specifically, we have seen testimony that AID's Inspector General has not been able to restaff the office that he had in Karachi. I understand, also, that that office had—in addition to the Pakistani responsibility—other regional responsibilities, or at least at one time they did. Could you give us more detail on that program, how the funds will be spent?

I also would be interested in knowing if you would have objections, or if you believe it would be helpful, if we made a provision that any additional funds to Pakistan would be subject to reintroduction of that Karachi IG Office, in some way or other putting in the bill or in report language that we want to have the checks and balances in place before we start putting a large amount of money into that?

Mr. STAPLES. If I can tackle that in reverse order, I was not aware of the fact there had been a closing or reduction in the IG Office in Karachi. There is still staff there. It is a regional office.

Senator KASTEN. It was our understanding from testimony that they were evacuated when the embassy was burned.

Mr. STAPLES. But they are back there now in Karachi.

Senator KASTEN. That is what we wanted to know.

Mr. STAPLES. Yes, sir, there is a functioning office in Karachi.

Senator KASTEN. Roughly at the strength it was before?

Mr. STAPLES. I believe so. I will have to check, but it certainly is staffed.

Senator KASTEN. It does not match up with what we had for testimony a couple of weeks ago. Maybe there have been some changes in the meantime.

Mr. STAPLES. I know it is, because I have been in correspondence——

Senator KASTEN. You don't object if we subject any new funds to reintroduction of that office?

Mr. STAPLES. Well, you can put whatever language you wish in the bill. But in fact, the office is there. I will be very happy to inform you how many people are there. I think it is the same number as was there before.

[The information follows:]

### KARACHI: AID INSPECTOR GENERAL'S OFFICE

There are 5 people in the Office of the Regional Inspector General for Audit and 3 people in the Office of the Regional Inspector General for Inspections and Investigation. Prior to the evacuation, the number of staff was 10 and 4 respectively.

### PAKISTAN AID PROGRAM

Mr. STAPLES. The program itself, as you may recall, was part of a 6-year arrangement for economic and security support to Pakistan, is supposed to build up by a considerable amount in the next few years, to what will be the highest level in Asia. A major part of the program is to support the importation of agricultural equipment and fertilizer. A $60 million project was approved this year to begin that particular effort.

There will be a major effort in agricultural research and education. There will be, as I mentioned earlier, a significant program in health and family planning, and there will be an effort to work with the Pakistanis in energy planning and the development of both conventional and nonconventional energy sources in Pakistan.

There will be a number of innovative new projects; including an effort to work out with the Pakistani Government a tribal area development project at a level of $15 million, to try to test out development models in the northwest frontier area up toward Afghanistan, which is clearly an area of great strategic importance.

Finally, we are trying to think very hard about how we can work with the Pakistani Government on the general subject of narcotics. As you know, Pakistan is a major producer of opium poppies.

Senator KASTEN. If you can get back to us with the details, that will be helpful.

[The information follows:]

## THE ECONOMIC ASSISTANCE PROGRAM FOR PAKISTAN

The requested FY 1983 $200 million program ($175 million ESF and $25 million DA) for Pakistan is to a major degree the continuation of the ESF program initiated during FY 1982.

The emphasis of the FY 1982 program is on various aspects of support for continuing growth in Pakistan's key agricultural sector. Approximately 80% of the $100 million is being spent in this area, including programs for the import of fertilizer and agricultural equipment, irrigation system management and rural electrification. Support in the areas of population and health, including the control of malaria, has been resumed. New departures in our renewed overall strategy include programs to assist in Pakistan's development of indigenous energy resources and specifically targeted development activities in the less developed, opium poppy producing and politically sensitive regions of the Northwest Frontier Province and Baluchistan.

The FY 1983 program will essentially continue these efforts. A new initiative in agricultural research/extension, however, will initiate a long-term relationship with a U.S. land-grant university. Another initiative aimed at increased agricultural production will address low productivity in vegetable oil seeds. Assistance to improve energy policy formulation and expand the use of renewable energy technologies in rural areas will also be provided. In addition, a special effort will be made to address the mobilization of the private sector in Pakistan's development.

-- AGRICULTURAL RESEARCH - LOP $10.2 million & R143.4 million; FY 1969-82

This project is assisting the GOP to: (a) establish an adequate institutional base within the Pakistan Agricultural Research Council (PARC) to conduct research and (b) carry out specific applied agricultural research projects which implement policy guidelines and which are based on the needs of small farmers. As of 9/30/81, $2.6 million and R4.6 million had been spent on: 1,111 months of training for 77 Pakistanis; technical advisory assistance from the International Rice Research Institute; the International Maize and Wheat Improvement Center and the U.S. Department of Agriculture; laboratory equipment; and, the construction of the National Agricultural Research Center.

-- ON-FARM WATER MANAGEMENT - LOP $18.4 million & R20.0 million; FY 1977-83

This project is assisting the GOP to reduce irrigation water losses and to improve agricultural production on small to medium sized farms of less than 25 acres. As of 9/30/81, $5.6 million had been spent to improve 300 water courses covering approximately 900 miles and serving 90,000 acres; to level farm land; and to provide technical assistance. Additional assistance funded under a FY 1982 amendment will help establish public and private sector capabilities to plan and deliver on-farm water management services, including improvement of irrigation water courses as well as crop and water management practices targeted to small and medium farmers.

-- IRRIGATION SYSTEM MANAGEMENT - LOP $90.0 million & R150.0 million; FY 1982-84

Pakistan's irrigation distribution system is the largest continuous inter-linked system in the world consisting of some 40,000 miles of canals. Deferred maintenance of this canal network has resulted in serious flood hazards due to the increased liklihood of breaches. This project, to be co-financed with the World Bank, proposes to re-establish the technical and financial integrity of Pakistan's irrigation system to enable efficient water delivery in designed quantities through a properly maintained system.

-- AGRICULTURAL COMMODITIES & EQUIPMENT - LOP $300.0 million; FY 1982-86

In spite of a relatively generous resource endowment, Pakistan has had to rely on imports to meet its requirements for food staples. A major impediment to improved productivity in agriculture has been the low level of fertilizer use, inappropriate timing of its application, and an imbalance in the nutrients applied. This project proposes to increase the availability of yield-increasing fertilizer and agricultural equipment with emphasis on strengthening private sector service activities for increased agricultural production.

-- POPULATION WELFARE PLANNING - LOP $25.6 million; & R21.0 million; FY 1982-86

This project will assist the GOP's efforts to reduce the country's prevailing high population growth rate of three percent by supporting the establishment of an institutional framework designed to provide family planning education, motivation and services.

-- PROJECT DESIGN FUND - LOP $10.0 million & R29.7 million; FY 1982-84

This project will assist the GOP to develop, design and implement high priority development activities which will help to establish the basis for self-sustaining economic growth. This activity will finance the foreign exchange and local costs necessary to identify, design and provide initial support for projects.

-- TRIBAL AREA DEVELOPMENT - LOP $15.0 million & R50.0 million; FY 1982-84

The tribal areas in Pakistan which are contiguous to Afghanistan have been largely excluded from development activities. This project will assist the GOP to carry out a special program to accelerate the integration of the tribal regions into the socio-economic mainstream of Pakistan through focused area development programs. Illegal poppies are grown in many parts of the tribal areas. This activity will focus on integrated development activities designed to phase out the cultivation of this crop through the maximization of local employment opportunities.

-- MALARIA CONTROL II - LOP $41.0 million & R21.0 million; FY 1982-84

This project will assist the GOP to maintain, or reduce further, the incidence of malaria to a level where the disease assumes a minor role in Pakistan's overall health situation, and where effective maintenance will prevent resurgence.

-- RURAL ELECTRIFICATION - LOP $171.0 million & R200.0 million; FY 1982-86

Because it relies heavily on petroleum imports to satisfy its energy needs, Pakistan is suffering badly from the worldwide energy cost escalation. Especially hard-hit is the country's rural area where 72% of its approximately 84 million inhabitants live. This project will assist the GOP to expand reliable electrical services to greater numbers of Pakistan's rural population, improve the rural poor's access to that service, and assist the GOP to overcome a shortfall in electric power generating capacity.

-- DEVELOPMENT SUPPORT TRAINING - LOP $8.0 million & R62.0 million; FY 1982-84

This project will assist the GOP in upgrading managerial and technical expertise through long and short-term training of Pakistanis in the private sector as well as the federal and provincial governments involved in the planning and implementation of Pakistani priority social and economic development programs.

-- PRIMARY HEALTH CARE - LOP $20.0 million & R50.0 million; FY 1982-84

This project will assist the GOP to provide primary health care to the rural population through continued support for the development of a three-tiered primary health care delivery system involving physicians, mid-level para-medics and community health workers. This activity complements efforts undertaken under the previous Basic Health Services Project.

-- SOCIAL MARKETING - LOP $13.5 million; FY 1982-86

Only six percent of fertile couples make use of contraceptives in Pakistan. Contraceptives are available in retail shops but their prices are too high for the low income groups which need them most. This project will assist the GOP in the application of mass consumer goods marketing techniques to the provision of contraceptives for a target population at a highly subsidized price and at a minimum cost to the distributing organizations.

-- AGRICULTURAL PRODUCTION, DISTRIBUTION AND STORAGE - LOP $25.0 million; FY 1983-86

Low production levels, a weak distribution system and lack of adequate storage facilities are major obstacles to increased food supplies in Pakistan. Distribution suffers an inefficient transportation system and public sector domination, which serves as a production disincentive, impose financial burdens on the Government, and strains the 3.3 million metric ton public sector storage capacity. This project will assist in implementing a long-term integrated action plan to overcome constraints in agricultural production, processing and marketing; expand the role of the private sector in the distribution system; support the development of private transport companies; and encourage public and private sector expansion of storage capacity -- particularly on-farm storage capacity. A central thrust of this project will be increased production, improved processing, and efficient distribution of non-traditional oilseed crops.

-- AGRICULTURAL EDUCATION, RESEARCH AND EXTENSION - LOP $30.0 million; FY 1983-86

This project will assist the GOP in upgrading agricultural education, improving the methods of communicating with farmers, and strengthening provincial capability to carry out adaptive research. The primary focus on this project will be on upgrading the Peshawar Agricultural College to a university, capable of turning out well-trained personnel to contribute to a dynamic agricultural sector. Agricultural research will concentrate on developing non-traditional methods of delivering extension services to farmers, and shifting portions of adaptive research from experiment stations to a wide range of producers' farms, thereby shortening the time-lag between experimental trials and technology transfer.

-- ENERGY PLANNING AND DEVELOPMENT - LOP $20.0 million; FY 1983-85

Firewood, dung and agricultural residue meet practically all of the energy demand of the more than 60 million habitants of Pakistan's 45,000 villages and more than 40% of the country's total energy demand. Until the mid-1970s, the use of these traditional fuels was declining. Now, because of the high cost of imported petroleum, their use is once again increasing. This project will assist the Government of Pakistan to improve national energy policy formulation and planning and to improve and expand the use of renewable energy technologies in rural areas.

-- PRIVATE SECTOR MOBILIZATION - LOP $50.0 million; FY 1983-84

This project will promote economic development in Pakistan by expanding the private sector's involvement in economic activities which directly support development or help expand the economic base for development. This activity will finance the technical assistance, training and feasibility, marketing and other studies needed to expand the private sector's participation in programs which directly support development goals in Pakistan. Constraints to domestic and foreign investment in Pakistan will be identified. Support will be provided to mobilize domestic capital, support trade development efforts, possibly including the free trade zone in Baluchistan, and increase export promotion activities. Financing will be provided to support greater U.S. private sector activity in Pakistan, which may include resources to permit U.S. exports to compete with the credit terms offered by other countries.

### ASEAN

Senator KASTEN. The ASEAN countries are critical to our interests. A recent subcommittee staff trip to these countries reveals a number of concerns that these countries have about our relations with them.

I guess we could sum it up by saying there is a feeling that now some are becoming more successful and more self-sufficient economically, that we are graduating them, but they are without any kind of help.

It would seem to me that these countries would be the primary targets for private sector initiative programs.

I wonder what efforts your bureau is putting into such programs? First of all, do you agree with our assumption? Second, could you describe what other things we could do in order to make this graduation process less severe?

Mr. STAPLES. We are making a special effort in regard to the private sector in both Indonesia and Thailand. We have had high-level missions visit both countries and both of our missions are actively at work in trying to put together a reasonable program that would be concerned not only with actual investment opportunities but also would try to achieve a better understanding of some of the policies that are concerned with private sector development.

### PRIVATE SECTOR DEVELOPMENT

I think that will be a major area of our interest in the coming years. What we are trying to do is not just get involved with conventional management enterprise or industrial development, but to try to see if we cannot improve capital formation and managerial training as concerns the rural part of these economies.

In regard to the other part of the question, it has always seemed to me that as countries begin to move up the ladder of economic development, in GNP terms, the most important thing we can do is to be as supportive as we can of private sector development which, of course, as you know, means not simply investment capital, but trade policy and access to international markets. It is also important to maintain institutional ties between universities and research institutions and people who are actively concerned with increasing agricultural production because these have been important economic development factors in our aid program. That maintenance of relationships, I think, is a very important thing to do.

In my own view, the U.S. Government has not been very successful worldwide in coming up with the institutional framework within which to do that.

Senator KASTEN. In your statement you say that the AID private sector initiative is facing a receptive climate, suggesting that there is a degree of disillusionment in Asia with the public sector. I think we sensed this when our subcommittee staff was in that part of the world in January.

There were consistent and constant complaints voiced over what seemed to be a retrenchment of the Ex-Im Bank and their activities, with a corresponding position that all this talk about private sector initiative is just talk, because we weren't really going in with helpful financing, with the lower-rate financing, to encourage the sort of private sector development that you are talking about.

Are you aware of this feeling, and have you had any comments, particularly having to do with the lower rate of financing in the Ex-Im or the problem of getting it down to this part of the world?

Mr. STAPLES. If I may give you two answers instead of one, I think that as far as concessional, somewhat below market rate financing for internal private investment in a given Asian country is concerned, there are usually a number of financing sources available. The International Finance Corporation connected with the World Bank has programs in most Asian countries. Most Asian governments encourage private development. Access to capital is not a major restriction for domestic private capital formation and enterprise development.

But there is a very real problem when you come to American sales or American investment in these countries. My own impression is that because of the position the Ex-Im Bank finds itself in these days, American enterprise can find itself at a rather large disadvantage when it starts to compete. The usual competitors are the Japanese but sometimes they are competing against the Germans, the French, the Italians, and the British. It certainly is a problem area.

### JAPAN

Senator KASTEN. It is our impression in this part of the world in particular that Japan is just running over all of us, and part of that is due to the better financing arrangements which have been made available. Maybe it is simply less of a bureaucratic entanglement that the Japanese have when they are working with trade and financing arrangements.

In the last 6 or 8 months we have heard criticism over the fact not only that the dollars are not there, but also allocations of credit from the Ex-Im Bank. I wonder if you are hearing the same thing?

Mr. STAPLES. Yes; the Japanese case is a very interesting case in political terms because the relationship between the Japanese Government and private enterprise and Japanese overseas investment is very close.

### SUBMITTED QUESTIONS

Senator KASTEN. Mr. Staples, I thank you. There may be additional questions coming from the committee. We will give you 2 weeks for response to our questions.

Mr. STAPLES. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### ASSISTANT ADMINISTRATOR POSITION

Senator Kasten: You are up here as the Acting Assistant Administrator. Has someone been nominated for the permanent position? If so, when can we expect that the new Assistant Administrator will be sworn in?

Mr. Staples: From December 1980 to August 13, 1981, pending the confirmation of Mr. Jon D. Holstine as Assistant Administrator, Mr. Frederick W. Schieck served as Acting Assistant Administrator. In January 1982, Mr. Holstine resigned and I became Acting Assistant Administrator. In April 1982, during my absence on an official trip to Asia, Mr. Robert Halligan served as Acting Assistant Administrator.

Administrator McPherson has submitted to the White House the name of Mr. Charles W. Greenleaf, Jr., to be Assistant Administrator for Asia. The appointment papers are being processed and I understand that the various background checks are nearing completion.

Administrator McPherson has asked me to give you his personal assurance that he is committed to providing the highest quality of intellectual and personal leadership in the Asia Bureau. His nomination of Mr. Greenleaf reflects that commitment.

### BURMESE LOCAL CURRENCY

Senator Kasten: Is my understanding that the U.S. owns a significant amount of Burmese currency correct? Why don't you make some of that currency available for programs in that country now that we have re-introduced an aid program?

Mr. Staples: Your understanding of the Burmese currency situation is correct. The United States Government has two Burmese currency accounts: one PL 480 repayments, and the other Mutual Security Act loan repayments. The Burmese Government has recently pre-paid the PL 480 account, and there is now more than $16 million in Kyat available. In April 1982 the Burmese Government requested a local currency grant of approximately $1,250,000 for activities in support of an AID financed primary health care project. In addition, the AID/Burma office and the Burmese Government are presently holding discussions on possible additional local currency activities that would complement the present development program.

The present balance of the Mutual Security Act loan repayments is the equivalent of $11,500,000. There are no immediate plans for utilizing these funds in support of the U.S. development assistance program. These local currency funds are presently being used to finance the administrative expenses of AID, the U.S. Embassy, and other U.S. Government agencies in Burma.

### AUDIT RECOMMENDATIONS

Senator Kasten: Have you examined the most recent semi-annual report on audit recommendations issued by the office of the Inspector General? Can we expect that you will make sure that those recommendations which are still open are closed as soon as possible?

Mr. Staples: We have taken vigorous action to close the unresolved audit recommendations. There are two recommendations which are assigned to Asia Bureau alone; agreement has been reached on steps necessary to clear them, and we expect closure in the near future on both. Of the eight audit recommendations assigned jointly to the Asia and the Food for Peace and Voluntary Assistance Bureaus, a solution that should serve as the basis for closure has been worked out for one, recommendations for closure on three have been made to the Inspector General, two more are the subject of intensive but promising negotiations with the host government, and the last two are undergoing legal analysis on the basis of recently received documentation.

## RESOURCE TRANSFERS

Senator Kasten: One of the changes Peter McPherson indicated he was going to make in the A.I.D. program was that he was going to concentrate more on technology transfer and get away from resource transfers, such as commodity import programs.

Isn't it true that in three of your largest programs - India, Bangladesh, and Pakistan - a great deal of the program is resource transfers?

Mr. Staples: Our program in India is in the process of completing its actions to terminate pure resource transfers and shift planned funding to support more technology transfer and institution building activities. Fertilizer promotion, agricultural credit, rural electrification and malaria control have received their final A.I.D. funding. In one of these projects, A.I.D. is negotiating a reduction in funds which were already committed. For others, funds previously planned for commitment in FY's 82 and '83 will be now applied to other projects which add to India's institutional capability to develop and spread new technologies in areas of major A.I.D. program interest, such as surface irrigation, forestry and watershed management, and population/health/nutrition service delivery systems.

In the case of Bangladesh, which lacks the already strong institutional capacities of India, we will continue to use resource transfers in association with technology transfer and policy reform to build Bangladeshi capabilities for making effective use of the country's resources. The resource transfers are not simply commodity impact programs. For example, A.I.D. funding of fertilizer imports together with assistance for the construction of storage facilities and a fertilizer plant has led to policy reforms which have made fertilizer distribution more effective and increasingly under private control. Our assistance in rural electrification has transferred new technologies in this field and caused policy reforms which have strengthened the rural electric cooperatives and given priority for power usage to the development of privately owned rural industries and irrigation pumps. The PL 480 Title III commodities have been at the core of significant food policy reforms. The short-term food security provided by Title III wheat has led the government to support incentive production prices for farmers and for the introduction of high yielding seed technologies. Private sector involvement in food marketing is also growing significantly.

A similar linkage between planned resource transfers and technology transfer, institutional building and policy reform will be followed in Pakistan. The large-scale resource transfers planned for FY's 82 and '83 in agriculture will meet the priority need for balance of payments support to meet short and intermediate foreign exchange shortfalls. However, these resource transfers will also provide critically needed equipment and fertilizer inputs for crop production increases. This assistance will be linked to A.I.D. policy dialogues with the Pakistan Government on policy reforms needed to systematize technological improvements in irrigated water management, obtain more effective delivery of fertilizer and other agricultural inputs, and achieve an effective outreach, research and extension capability emmanating from strengthened agricultural universities. The PL 480 Title I transfers of vegetable oil are helping provide the basis for Pakistani development of a comprehensive program to increase oilseed production and small farmer income, a program with policy reform measures and technological innovations that we hope will be strengthened under the aegis of a Title III program. We expect technological advancements to be communicated also through the rural electrification project, which we see strengthening the rural electrification organizational structure and its policies to increase rural income and employment benefits through electrification. Technology transfer activities such as the agricultural research project are closely linked to the resource transfer activities aimed at the agriculture sector.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### REGIONAL ALLOCATIONS

Senator Inouye: Your statement cites the statistic that "the Asia region contains about seventy-five to eighty percent of the world's poor." Yet, I note that the Administration's request for the Asia region is less than that requested for Africa and only slightly more than that requested for Latin America and the Caribbean.

How do you explain this regional allocation?

Mr. Staples: Page 494 of the main volume of AID's FY 83 Congressional Presentation provides a regional breakdown for total economic assistance, as follows:

| | ($ millions) |
|---|---|
| Africa | 876.5 |
| Asia | 1,004.0 |
| Latin America | 825.6 |
| Near East | 2,396.5 |

These allocations, which show Asia ranking second among all regions, are for Development Assistance, ESF, PL 480, and the Peace Corps. For Development Assistance alone, Asia receives the highest regional allocation in the FY 83 request to Congress ($407.6 million). In addition, U.S. contributions to multilateral development banks benefit Asian countries, as do the centrally-funded programs of AID.

Senator Inouye: What criteria were applied in achieving this regional allocation? Were they primarily security related or primarily economic in nature?

Mr. Staples: The population of the Asian region is greater than that of the other regions receiving U.S. economic assistance. The population of a recipient country is clearly a factor in the size of our assistance programs, as evidenced in the fact that Asian country programs are among the largest. However, because U.S. assistance resources are finite and there are many urgent development requirements around the world, the allocation of U.S. assistance cannot be determined by population alone. Allocation criteria for the various U.S. assistance programs differ to some extent, but economic development criteria are among the most important. Our perception of a country's need -- according to various poverty criteria, institutional and technological weaknesses -- helps to guide the allocation process. Of course, foreign policy considerations play an important role, as does the development performance of recipient countries, especially in the area of economic policy.

Senator Inouye: If a strict determination of need for development assistance, based on per capita income, were to be made, what would the allocation be?

Mr. Staples: Based on Development Assistance recipient country populations of 1,183 million in Asia, 27 million in the Near East, 188 million in Africa, and 66 million in Latin America, Asia would receive 81% of the bilateral development assistance funds, or $851 million, as opposed to the $407 million now allocated.

## ASEAN COUNTRIES GROWTH

Senator Inouye: You note that, "The five states which comprise ASEAN are growing at an annual growth rate of 6.8 percent at a time when the economies of other countries are generally stagnant." As an expert in economic development, to what do you attribute this remarkable performance?

Mr. Staples: All of the ASEAN countries, including Indonesia, currently are classified by the World Bank as middle-income developing countries. There are several factors that have affected these countries' ability to grow at such high rates.

1. Agricultural progress was more successful than in most other Asian countries. Total per capita food production increased by 47 percent from 1971 to 1980 in Malaysia; in Indonesia the increase was 16 percent and in Thailand, 27 percent. In East Asia as a whole, excluding Japan, the increase was only 13 percent. In South Asia, per capita agricultural development fell below the 1971 level.

2. Gross savings in these countries generally were higher than those in other Asian countries. In Indonesia, gross savings were 30 percent of GDP compared to an average for middle income countries of about 25 percent, in Malaysia 34 percent and in Singapore, 26 percent.

3. The growth in exports for these countries generally was higher than the average for middle income countries. In Thailand, export growth for the period 1970-79 was 12 percent,

Philippines, 6.2 percent; Malaysia, 6.5 percent; Singapore, 11.0 percent; and Indonesia, 6.5 percent. The average for middle income countries during this same period was only 4.3 percent.

4. Growth rate of manufacturing was higher than the average for middle income countries. For the period 1970-79, the average rate of growth of manufacturing was 6.6 percent for middle income countries. The rate in Thailand was 11.4 percent, Philippines 6.7 percent; Singapore, 9.3 percent; Malaysia, 12.4 percent; and Indonesia, 12.5 percent.

5. The growth rate of investment from 1970-79 was higher in the ASEAN countries than in the middle income countries in general. In Indonesia, gross domestic investment rose by 14.8 percent; Philippines, 10.6 percent; Malaysia, 10.3 percent; Indonesia, 14.8 percent; and Singapore, 6.0 percent. The average for middle income countries was 7.0 percent.

There are other factors that have favorably affected the growth of the ASEAN countries. In general, this growth has been associated with openness to foreign trade and investment and a predominantly market organization of economic activities. A rough measure of "openness" is the ratio of exports to Gross National Product. In 1980, this ratio was 20-25 percent for the Philippines and Thailand compared with an average of 18 percent for all non-aid developing countries in the middle income range. The ratio was 35 percent for Indonesia and 65 percent for Malaysia. Openness to foreign trade and investment indicates a considerable degree of market activity and gives wide scope to private enterprise and the search for profit.

Another important factor was the ability of these countries to reduce their rates of population growth. They have reduced the rate of growth to between 2.1 and 2.4 percent, and all have viable family planning programs.

Senator Inouye: How is this growth related to Official Development Assistance?

Mr. Staples: Official Development Assistance has acted as a catalyst. It is virtually impossible to ascribe a specific portion of the growth of the countries to ODA levels. It has helped diversify agriculture, reduced population growth, assisted in higher educational standards and improved health conditions. Without these resources, some of this progress would not have been possible. However, in general bilateral net ODA aid flows to the ASEAN countries have averaged less than 2 percent of their GNP and, at most, 5 percent of the country's total development budget.

Senator Inouye: How is it related to Multilateral Development Assistance?

Mr. Staples: Again, it is difficult to attribute a proportion of the growth attained by these countries to multilateral aid. ASEAN nations have received assistance from the IBRD/IDA and ADB primarily in the agricultural and rural development sectors, but large amounts of financial resources also have gone into industry and infrastructure. Undoubtedly these have laid the groundwork for the development of the ASEAN nations. Yet, as in response to the previous question, the largest resource input to the ASEAN countries overall development comes from its own resources. As the World Bank stated,"...external capital constituted only a small part of total capital formation [in East Asia]; the largest part, 90% or more of the GDP in the Region, was financed by domestic savings."

Senator Inouye: Can it be said that this rate of growth is more the result of the economic policies of ASEAN nations or more the result of development assistance?

Mr. Staples: These considerations are closely intertwined. In fact, many of the loans given by A.I.D. and the multilateral banks, whether project or non-project aid, contain explicit conditions that are policy-oriented. A PL 480 program can be used to develop appropriate agricultural pricing policies. An electric power project can elicit changes in pricing policy. A fertilizer-improved seed project can effect policy changes in agricultural pricing/distribution/storage systems as well as introduce the private sector into the picture, where it may previously have been excluded. In the case of commodity loan programs, these can include major macro-policy changes which are made possible through the infusion of money. Policy and external resources availability are inextricably combined and although improved economic policies are necessary and essential if developing countries are to move ahead, they are not sufficient and in many cases they require external resources to permit their introduction and implementation.

Senator Inouye: Is the private sector more highly developed in the ASEAN nations than in Latin America?

Mr. Staples: There is a highly developed private sector in all the ASEAN countries as well as in Latin America. Net direct private investment in 1979 is one indication of the role of the private sector in the economy: in Brazil, it totalled $2.2 billion; Argentina, $239 million; Chile, $233 million; in Singapore, $815 million; Malaysia, $873 million and Indonesia, $226 million. In Philippines and Thailand it totalled $52 million and $75 million in total.

## FOOD AND POPULATION IN ASIA

Senator Inouye: According to your prepared statement, 15 percent of the funds requested for Asia are to continue population planning projects, while 70 percent are for agriculture and rural development. What is the record of per capita food production in Asia over the past 10 years? On a per capita basis has food production increased?

Mr. Staples: Total food production rose in each of the Asia countries receiving economic assistance from the U.S. government. However, in three of the countries, population growth rates exceeded the growth rate of food production, with the result that per capita food production actually was slightly below 1969-71 levels.

Per capita production in 1980 (compared to the 1969-71 period) rose 5 percent in the Philippines, 8 percent in Burma, 11 percent in Sri Lanka, 16 percent in Indonesia, 27 percent in Thailand and 47 percent in Malaysia.

In Bangladesh, total food production rose 29 percent while population rose slightly more than that, with the result that in 1980 per capita food production was at approximately 1971's level. This general trend was also true for India and Pakistan; per capita food production in these countries did not improve during the past 10 years. (It should be noted, however, that in some years in India e.g. 1975, 1977 and 1978 per capita food production did exceed the 1969-71 level).

Senator Inouye: Is it A.I.D.'s judgment that funds spent for agriculture and rural development increase the per capita availability of food more rapidly than an equal amount spent in support of population planning program?

Mr. Staples: Investment in food production is a more costly and diversified effort than investment in population planning efforts. The former requires the provision of many expensive major inputs, e.g., irrigation, new variety seeds, fertilizer and the institutional framework that extends the knowledge gained from the research lab to the small farmer. In general, investment in agriculture is a capital intensive, as well as an institutional development process. But its results, increased production and crop diversification provide major returns on the investment. For example, in 1980 total foodproduction in Indonesia increased by 44% compared to 1971; in Thailand by 62%; in Pakistan, 35%. Population planning does not need and cannot absorb the amounts of money required by the agricultural sector. Population planning programs require little capital intensity - they are primarily educational programs. The most costly item is the provision of contraceptive devices. However, population planning is a much more difficult, time consuming process and the returns in the form of reduced fertility rates are further in the future. Nevertheless, concentrating on one part of the problem, agricultural output, at the expense of the other, family planning, would be a mistake. Both are essential.

Senator Inoyue: Is this equally true in the long run?

Mr. Staples: We have been successful in increasing agricultural production. However, during the same period, most countries did witness large rates of growth in population, so that even in those countries that show an increase in per capita food production, the increase was relatively small. For example, per capita production in 1980 in the Philippines was only 16 percent greater than it was about 10 years earlier. On a simple average annual basis, this would be less than a 2 percent increase per year. Thus, in the long run, population must decrease if there is to be any chance of improving the growth of per capita production, and per capita consumption. But this reduction of population growth rates is primarily a question of improving services and changing attitudes. In fact, increasing agricultural production is one way of reducing population growth as it should increase income and therefore reduce the pressures for more children.

Senator Inouye: What factors would you cite to support this judgment? Is it, for example, easier to gain acceptance of improved methods of agriculture than it is to gain acceptance of population planning?

Mr. Staples: The introduction of improved seeds, fertilizer, irrigation, water management techniques, and credit, as well as the development of new and diversified cropping patterns and appropriate price policies are difficult to get accepted. Yet the potential results are more tangible to the farmer. Farmers generally are income oriented and once it is shown and proven that they can earn more income by increasing per unit production, they will at least make a try at improved methods.

To many people in the developing world, although more children mean more mouths to feed, they also mean more hands to work and earn money (even if only a minimal amount). Although the wife may want fewer children, the husband may want more, as children (particularly male) demonstrate virility. Children are also a form of old age insurance to care for the parents in societies that lack any other form of insurance for the aged .

There are, of course, religious and social constraints to population planning while there are not similar constraints to increased agricultural production. Thus, reducing population growth is a longer and slower process.

## HEALTH PROJECTS

Senator Inouye: Last year, your predecessor told the Committee that only one percent of the rural population in Indonesia had access to potable water.

Does AID propose to fund any potable water projects in Indonesia in FY 1983?

Mr. Staples: AID does not propose to fund any potable water projects in Indonesia in FY 83. For your information, a recent WHO Study on Water Supply and Sanitation in Indonesia indicates that between 2-3% of the rural population and 31% of the urban population have access to potable water.

Senator Inouye: Funding proposed for health programs in Asia in Fiscal Year 1983 is approximately one-third less than the amount provided in Fiscal Year 1981. How do you explain this reduction?

Mr. Staples: There have been relatively fewer new health projects initiated during the last three years. Thus as funding for older projects has run out, the overall funding level has declined. Further explanation for the decline can be found by examining trends in health financing by program area. The level of support for health services has remained relatively constant over the period while there has been a substantial decline in funding for water and sanitation programs. These changes are in keeping with the Agency's focus on primary health care.

It is interesting to note that if the proposed $9.5 million from ESF for health projects in Pakistan for FY 83 is included in the total budget for health, the funding levels for FY 81 and FY 83 are not that different.

Senator Inouye: How does funding for potable water projects in Fiscal Year 1983 compare with funding provided for this purpose in Fiscal Year 1981?

Mr. Staples: Development Assistance Health Funding for potable water projects in Asia will decline from $9.4 million in FY 81 to a proposed $200,000 in FY 83. There is no ESF support for potable water projects in Asia in either FY 81 or FY 83.

## BUREAU FOR AFRICA

## STATEMENT OF FRANK S. RUDDY, ASSISTANT ADMINISTRATOR

### SUMMARY OF STATEMENT

Senator KASTEN. The next witness is Mr. Frank S. Ruddy, Assistant Administrator for Africa.

Your prepared statement will be included in full in the record, so if you can provide us with a summary, we will have some questions.

Mr. RUDDY. Mr. Chairman, thank you for the opportunity to be here.

These are serious times for Africa. The price of oil has increased tenfold over the last decade. The market for raw materials and other exports has dried up temporarily.

Senator KASTEN. I might ask you to speak up a bit. We will let the room get cleared. It is difficult for the people behind you to hear, and we do not have amplification in this room.

Mr. RUDDY. Food per capita production in sub-Saharan Africa, while improved, is still substantially below what it was in the 1961-65 period.

Food imports have quadrupled in the last 10 years.

Balance-of-payment crises are more frequent.

Twenty-two sub-Saharan African countries have some kind of arrangement for standby or some extended fund facility arrangments with the International Monetary Fund. In many countries, roads, railroads, bridges, harbor facilities, utilities, et cetera, are deteriorating. Governments just don't have the funds to do anything about it.

Industrial production is stagnant in most countries; investment lags; the private sector is starved for foreign exchange and capital; in many countries parastatals are floundering.

In addition, war and civil strife have taken a heavy toll, not only in those countries which are directly affected but also on their neighbors who must absorb refugees.

These conditions have caused us to review carefully our programs in Africa and sharpen our objectives and the strategies for achieving them. It is evident that there must be a substantial emphasis on economically productive activity in Africa if governments are to have sufficient capacity to absorb development assistance effectively.

The current cost problem for African governments is growing and in the final analysis only greater efficiency and expanding tax bases can relieve its burden.

No matter how well-intentioned the policies of certain African governments have been, all too often they have resulted in severe economic dislocations and disincentives to production. Of particular concern are prices for agricultural inputs and products, policy on parastatals, credit and foreign exchange policy, and budgets, to name just a few.

We intend to support the reform programs which governments agree to with the IMF and the World Bank. In addition, we intend to use our influence and support with reform-minded elements in African governments in conjunction with our technical assistance. We are very aware that unless government policies encourage development, the contribution of donors is simply an expensive form of temporizing.

### PRIVATE SECTOR DEVELOPMENT

Our primary concern in Africa is development and one means to that end is the private sector, and in most African countries that means the indigenous private sector. By "private sector" we mean simply a nongovernmental means of providing goods and services. In our judgment, that is often the most cost-effective way to create jobs and enhance efficiency.

We believe that our current program emphasis is sound and that our productivity-focused priorities—agriculture, technology, policy, institution building, and private sector promotion—are mutually reinforcing and germane to the troublesome problems of Africa today.

The situation in Africa is by no means all bleak. It has been a kind of opportunity for us to make some changes because other government donors as well as ours are seeing a failure of some very well-intentioned but Utopian economic policies. So, we think there are great problems here, but there are also great opportunities. So we remain sanguine. Thank you.

Senator KASTEN: I am not sure that Congress is as sanguine as you.

I can't help but notice what must be a slight family resemblance with the two boys in blue blazers back here.

We welcome you.

We assume those are your two sons; is that correct?

Mr. RUDDY. That is right.

[The statement follows:]

# PREPARED STATEMENT OF FRANK S. RUDDY

## ASSISTANT ADMINISTRATOR FOR AFRICA

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### Overview of Trends in Africa

From what we can observe over the last decade, economic development in Sub-Saharan Africa is becoming more difficult and urgent. After moderate but steady growth and development in the 1960s and early 1970s, the economic performance of Africa has declined, and projections for the 1980s are not bright. At present, average annual growth in per capita GNP is projected between 1.0 percent and negative 0.1 percent between 1980 and 1990.

The downturn in African economic performance is taking place against a background of population growth, relatively slow rates of technological change, and the fact that in many areas the limit of cultivation has been reached.

While Africa's population is estimated to be growing at an average annual rate of about 2.8 percent, food production has not kept pace. Throughout the 70's, the average annual per capita growth rate in agriculture, Africa's most important economic activity, was minue 1.4 percent for all crops. Per capita food production was minus 1.2 percent. Overall production increases, such as they have been, were attained almost exclusively by expanding the areas under cultivation. Food yields per hectare in Africa have been at a lower level than in other regions.

### FY 1983 Request

Thank you for the opportunity to discuss A.I.D.'s FY 1983 economic assistance request for Africa.

For FY 1983 the Africa Bureau is requesting a total of $648.4 million, a 7.0% increase over the FY 1982 level of $606.1 million. The Development Assistance request of $323.4 million is virtually unchanged from the FY 1982 level of $327.5 million. The FY 1983 request of $325 million for ESF is 17.3% higher than the $276.7 million in FY 1982.

The $323.4 million in Development Assistance for FY 1983 will concentrate on the following areas: $142 million for agriculture and rural development activities; $32.4 million for health activities; $30 million for education and human resources development programs; $20 million to address selected development problems; and $7 million for population planning (including $2 million in population activities in the Sahel Development Program). The Sahel Development Program, which is a separate functional account, for which $93.8 million is requested, focuses on food production, environmental reclamation, health, population and related training. In addition to Development Assistance, $325 million in Economic Support Funds is requested primarily for programs in Southern Africa and the Horn. $191.7 million in PL 480 assistance is requested, including $43 million in Title III. The FY 1983 request, if appropriated, will be used to address a series of economic and social problems throughout Africa.

## Potential and Progress in Africa

Notwithstanding what we are witnessing in sub-Saharan Africa, the region has substantial long-term economic promise. Africa has the potential for increasing annual production of cereals by 16 million metric tons from rainfed land and by 9 million metric tons from irrigated land, for an annual production increase of 25 million metric tons. This compares to a total production of 42 million metric tons in the period 1977-79. The potential average annual increase in livestock products is estimated at 1.04 million metric tons.

Sub-Saharan Africa has nine major river basins running through several countries in the Sahel, Central and Southern Africa. Irrigation potential can be compared to the American West. The basins offer the possibility of putting some 14 million hectares under irrigation. Africa is estimated to have over one third of the world's potential hydropower resources. Energy from hydropower is one of Africa's greatest underutilized resources. The natural highways which are formed by the rivers can serve as low-energy alternatives for moving agricultural products to markets and supplies to producers.

The Sahel region alone could put 2 to 6 million hectares under irrigation, and about 1.8 million of that could be under irrigation by the year 2000. This alone would mean a 50% increase in food produced. Significant production increases could be achieved through intensification of dry land production, application of different farm technologies and opening of new lands through onchocerciasis and other disease control programs.

While distribution among countries is very uneven, Africa is a major producer of minerals such as copper, cobalt, chrome, and uranium. There has also been a steady increase in the number of oil deposits located, particularly in coastal waters. Only a small portion of the land has been surveyed in detail and the potential is believed far greater than current production levels would suggest.

With respect to progress, Africa's absorptive capacity has been rapidly enlarging. Today an estimated 60% of all school age children are in primary schools. Since mid-1960 annual secondary and higher education enrollment have increased by 9.8% and 11.1% respectively. Conditions are being created which will increase Africa's ability to use its greatest resource, its population.

In the area of food production, new hybrid cereals varieties have been developed, seed multiplication activities replicated and agriculture research activities initiated. A number of African countries are beginning to re-examine food pricing, parastatal and other policies affecting food and agriculture production. As a result of a joint assessment in Senegal, a declaration was issued calling for the abolishment of two major parastatals, reorganizing rural development agencies and promoting private cooperatives. The government also plans to undertake new pricing policies and revamp the farm credit system. In Somalia parastatals are being disbanded. Private voluntary organizations are continuing to play a significant role, especially at the grass roots level, in the implementation of A.I.D.-funded activities. Under a rural enterprise development project in Upper Volta, business practices of 80 entrepreneurs have been upgraded; loans granted to 120 entrepreneurs, and a demonstration farm established, introducing new technology such as hand mills, peanut presses and other implements.

## Description of the FY 1983 Program

The FY 1983 request concentrates the Agency's efforts on a small number of key interrelated problems facing the African continent. A.I.D. assistance will continue to stress the production aspects of agriculture with particular emphasis on small holders. In that context, special emphasis will be placed on institutional development, policy reform, and building and supporting the private sector wherever appropriate.

## Private Sector Activity

A.I.D. is placing special emphasis on support of the private sector of African economies, particularly for indigenous small and medium size enterprises. We are now reviewing projects to assure that wherever appropriate the private sector is used and supported. For example, in Sudan approximately two thirds of the foreign exchange associated with our CIP program will be reserved for imports for the private sector to assure that it will be able to update its plant and equipment and operate efficiently. We are also actively developing projects to be funded out of the counterpart funds which will be designed to promote and assist small and medium size entrepreneurs. Wherever possible we will, in association with A.I.D.'s Private Enterprise Bureau, be alert to opportunities for the U.S. private sector to participate in African development activities.

We believe that support of the private sector is an efficient way to expand employment and productivity. Moreover, maximizing use of the private sector will lessen the burden of already overextended governments.

We expect PVO grants of approximately $31 million in Africa in FY 83. This includes $25 million from DA and $6 million from ESF funds. We believe that AID/PVO cooperation is an effective means for enhancing the impact and effectiveness of our efforts.

## Agriculture

Helping African nations increase their food and agricultural production and improve food distribution is the major emphasis of A.I.D.'s development assistance program in Africa.

In response to the food deficit problem, A.I.D. has implemented a food/agricultural sector assistance strategy. Its three major components are:

1. Assist in creating national policies and programs that give farmers adequate incentives to expand agricultural output, especially of food.

2. Assist in building self-sustaining institutions that provide appropriate technology, inputs and services at the time and in the quantity necessary for effective production and distribution of food products.

3. Support institutional and human resource development programs that provide the means for greater participation by farmers in the development process, including policy planning, to build popular support and acceptance of programs necessary for self-sustaining growth.

To improve efficiency in the employment of both A.I.D. and host country resources, A.I.D. has placed an increased emphasis on host country economic policies. This effort is being implemented at two levels. At the macro-economic level A.I.D. seeks to insure that its country programs are consistent with the intent of International Monetary Fund and/or World Bank reform agreements with host countries. Where possible A.I.D. measures will actively reinforce host countries' efforts to comply with these agreements. At the sector level A.I.D. will seek to collaborate with host countries on devising ways to improve specific policies. A.I.D. is especially interested in obtaining adjustments in host countries which will increase the influence of market forces in the determination of agriculture prices, liberalize marketing arrangements and expand the role of the African private sector in agriculture-related activities. Private enterprise activities such as a new agribusiness development project in Kenya, along with ongoing activities on the manufacture of farm implements in Uganda and Niger, as well as training, are proposed for funding in FY 1983.

Health:

The goal of the Africa Bureau health sector development program is to assist the countries of the region to address their health problems on a national and regional basis. Health programs are supported for the most part in four general categories:

Primary Health Care - These multi-disciplinary projects provide support for systems of health services for rural communities. Projects usually consist of training village health workers and their supervisors and providing logistic support. Seven basic services are recommended for primary health care systems. $13.9 million is proposed.

Health Planning, Management and Manpower Development - training and technical assistance are provided to countries and regional organizations to develop national capabilities to manage national primary health care programs. Bilateral, regional and multilateral projects address Africa's main constraint to health development - lack of health manpower. $2.3 million is proposed in the category.

Water and Sanitation - Support is provided for developing safe water sources in rural communities, and maintaining environmental safeguards. Education of communities is an important aspect of these projects. $4.7 million is proposed.

Endemic Disease Control - Bilateral, regional, and multilateral projects address the tropical disease problems of vast geographic areas. Diseases such as malaria, schistosomiasis, onchocerciasis, and trypanosomiasis are endemic in most of Africa. Programs include surveillance, sector control, treatment, chemo-prophylaxis, and immunizations. A budget of $10 million is proposed.

Population Program

In Africa, progress in the population sector has been slow. As Haven North and others of my predecessors have noted before me, the population issue in

Africa has to be approached with great care and sensitivity. It must be carefully integrated with the provision of health services, with the opportunities for improvement in income and in general economic growth and employment opportunities. Otherwise it will be distorted and backfire on efforts to establish programs.

The implementation of a family planning program is a slow and difficult process: in part it is a matter of establishing the systems for delivery of health services in conjunction with family planning; in part, it is institutional and a lot is attitudinal. It is a matter of what people want, because A.I.D. cannot force countries to accept population programs.

Seven sub-Saharan African nations (Botswana, Ghana, Kenya, Mauritius, Rwanda, Senegal, Uganda) have declared national population policies. Several others, including Nigeria and Sudan, have recently established national population councils. 23 countries in the region now provide family planning services in government clinics.

### Energy and the Environment

A.I.D. must continue to address the high cost and increasing scarcity of energy resources, deforestation and ecologically unsound agriculture and livestock practices if Africa's productive capability is to be preserved and expanded. A.I.D. will support afforestation, range and soil conservation efforts. These activities will be designed as integrated components of agriculture production systems. In Mali, Senegal, and Burundi projects will focus on fuelwood renewable energy technology.

### Education and Human Resource Development

In FY 1983 A.I.D. will help expand Africa's human resources capacity. Attention will be devoted to: (1) development administration and technical skills training, as pre-conditions to institutional development and the transfer of technology; (2) strengthening indigenous private voluntary organizations (PVOs) and the commercial private sector by helping them develop management and entrepreneurial skills, and (3) expanding training opportunities in the United States through the Africa Manpower Development Project.

An example of technical skills training and development administration is the Agricultural Education Project in the Cameroon, which will create an agricultural university capable of training managers, researchers, planners and teachers who can effectively staff the agricultural support institutions of Cameroon.

Sahel Development Program

The Sahel Development Program was initiated in FY 1978 as a regional effort through which eight African countries cooperate with western donors and oil producing countries of the Middle East (OPEC). Led by the United States and France under the Club du Sahel, 20 bilateral donors are now active contributors to a range of programs and projects to help the Sahel countries become self-sufficient in food and to construct economic infrastructures which will assure sustained economic growth and a better and more secure life for their people. Donor assistance has increased from $1.1 billion in 1976 to $1.5 billion in 1980.

Twenty years from now, the Sahel can be feeding itself. Our long-term economic objective is to assist the countries in the Sahel region to increase agricultural production to levels where basic food imports will not be necessary. Sound economies in the region will contribute to the stability of the countries and provide opportunities for U.S. investments as well as access to mineral resources such as uranium (Niger) phosphates (Upper Volta), iron (Mauritania), bauxite (Mali).

As a result of a development strategy agreed to by the donors and recipient countries, progress is being made. Agricultural research programs have been expanded and strengthened, extension services are reaching the farmer, new agricultural technologies are being introduced, range management and animal health improvements are being applied. The agriculture policy picture is starting to improve. In Senegal and Mali, cereal marketing through the private sector is now being encouraged. The governments of Senegal, Niger, Mali and Upper Volta are adjusting cereal pricing policies to provide more incentive to the farmer for both production and marketing.

In the FY 1983 program A.I.D. will continue to support the Sahel development strategy and direct resources to the agricultural sector, and particularly toward rainfed agriculture which constitutes the mainstay of Sahelian agriculture. A.I.D. is providing technical assistance and key inputs to assist in developing Sahelian agriculture capacity.

A.I.D. is also supporting long range strategies to develop water resources in the Senegal and Gambia river basins. A.I.D. is supporting other donor efforts through its regional program which concentrates on institutional development and basins planning, and through the development of small scale irrigated perimeters which have an impact in the individual countries. Of the $93.8 million request in FY 1983, $27.6 million will be allotted to regional programs directly benefiting the individual countries in the basin area. The balance will be allotted to seven countries in the region under bilateral programs.

Our assistance to Chad has been limited to relief and rehabilitation together with other donors. The civil war has brought extensive damage to Chad's economy. Nevertheless we propose to continue monitoring the situation, looking for improvements before undertaking any extensive or long term development projects.

Sahelian problems with financial management of A.I.D. funds continue to be a matter of serious concern. Steps have been taken to correct serious deficiencies in the accounting and management systems. Host country documents are being verified and accounting systems have been examined to determine their adequacy for certification by A.I.D. officials as a precondition to disbursement of funds. To correct the deficiencies, training programs, workshops and teams have been developed to improve the financial management of the local institutions concerned with the Sahel programs and projects. Donor and recipient countries have acknowledged the seriousness of the problem and collaborative efforts are underway to assure efficient use of funds and accurate accountability.

The Economic Support Fund Program (ESF)

The FY 1983 request for $325 million is intended to provide the United States with the resources necessary to stem the spread of further economic and political disruption and to support the efforts of friends and allies to deal with threats to security and independence. Economic Support Funds totalling $325 million are requested for Sudan, Somalia, Kenya, Mauritius, Seychelles, Djibouti, Zimbabwe, Zambia, Botswana, the Southern Africa Regional Program, Liberia, Niger, Senegal and Zaire.

These countries are currently experiencing a broad range of economic and political problems, such as, balance of payments and budgetary deficits, external debt burdens, deteriorating terms of trade and declining output, and the threat of political instability.

In addition to the political and security objectives of these funds, A.I.D. makes every effort to assure that they have developmental effect as well. For instance, in Zambia and Kenya our Commodities Import Program is targeted on agricultural inputs; in Zimbabwe 80% of the CIP is reserved for the private sector, with local currencies supporting development in traditional areas. ESF funds are a particularly versatile development instrument when used as program assistance in support of policy reform.

PL480

The FY 1983 program request for PL480 is $191.7 million of which $117 million will be allocated to the Title I category. Within Title I, $43 million will be directed to Title III. The $74.7 million balance of the request will be devoted to Title II.

By legislation, PL480 embodies several objectives, among them the economic and social development of PL480 recipient countries. The Africa Bureau is committed to fostering sustained development as the objective of its assistance through PL480 food resources. Specifically, the Africa Bureau seeks to utilize PL480 resources (sales revenues and/or commodities) to address and alleviate the underlying causes of the need for food assistance, particularly in the agricultural and rural sectors. The Administrator has instructed our field missions to enhance the effectiveness of PL480 food aid by: a) seeking policy dialogue with host governments on ways to alleviate the constraints to improved food security; and b) increasing the degree of integration of PL480 programs within the total AID development assistance program.

Self-help measures, under Title I use of local currency sales revenues, and policy dialogue, or integration with other forms of non-food assistance are intended to enhance the development impact of Title I. The Title III program will be continued in Sudan and Senegal and a new program may be initiated in Somalia.

Title II grant commodities have been traditionally channeled into direct food distribution programs through maternal-child health centers, school feeding programs and food for work projects, all of which are administered by U.S. registered private voluntary organizations or by the World Food Program. Similarly under Title II Section 206, we are undertaking programs for food for development in Cape Verde, Mauritania and Upper Volta.

Other Donor Coordination

As the Berg Report noted, donor coordination deserves special emphasis at this time. The serious problems faced by many African countries can only be met by integrated projects and programs. Moreover, as certain governments find themselves less and less capable of meeting the recurrent costs associated with various projects, project and program planning requires an assessment of total donor activities as well as those of individual donors.

The extent of the problem is illustrated by the fact that although the U.S. is a major aid contributor in Africa, our assistance accounts for only 7% of total Official Development Assistance. There are no less than 52 bilateral donors in Sub-Saharan Africa; the 17 member Development Advisory Council (DAC) of the OECD, 7 Arab/OPEC, 9 Arab multilateral, 12 other multilateral, and 7 East Bloc. In addition, there were 34 American PVOs associated with A.I.D. alone in FY 1981. Each of these donors has its own policies, procedures and programs.

A.I.D. is promoting greater cooperation among donors in several ways by encouraging ongoing cooperative efforts in such donor groups as CDA (Cooperation for Development in Africa, formerly CADA) and the Sahel program, and through cooperative efforts with African groups such as ECOWAS and SADCC. We are also seeking opportunities for cofinancing with other donors, both bilateral and multilateral. Thank You.

## ZAIRE

Senator KASTEN. You are requesting a substantial increase for the program in Zaire at a time when we are receiving increasing reports about corruption in the Zaire Government and new charges now that former legislators, political opponents of the government, are being jailed.

First of all, can you substantiate or refute some of them? Given these reports, how can you justify this kind of increase? And, last, can you tell us if there is any realistic chance of these conditions changing in Zaire, which might justify an increase?

First of all, are the reports of corruption and charges correct? Under whatever circumstances, how can you justify this kind of increase?

Mr. RUDDY. Mr. Chairman, I am really not in a position to comment one way or the other on the charges of corruption. I simply don't know. I have read the newspapers, as have you, but that is simply not within my area of jurisdiction.

I think we are very concerned about the situation in Zaire, for various reasons. Although the world market for some of its products has not been what it has been in the past, Zaire is very important to us as a nation for strategic materials, such as cobalt. We recognize with you that there are very severe problems in Zaire.

The State Department has made representation to the government of Zaire that these kinds of problems are going to make it very difficult for us to continue funding at the same, and certainly at an increased, level. I think this point was made in an actual report in a Washington Post article approximately a month ago by Jay Ross, when he was in Zaire.

The World Bank also has made the point in talking to President Mobutu. The president in December of last year acknowledged the difficult strategic situation, and he did personally make a commitment, certainly with his own seal of approval, to guarantee reform.

We think that the CIP program, which we hope will start in 1983——

Senator KASTEN. What program?

Mr. RUDDY. Commodity import program, CIP, we think this kind of thing is going to be very effective in Zaire. We think it is the kind of thing that will put some teeth to Zaire's statement that it is going to encourage the private sector and let it take over some of the operation, which its own parastatals are not carrying off very well. We think there is something to that.

Since 1978, somewhere in the neighborhood of 38—and the number might not be exact but it is pretty close--parastatals in Zaire have been transformed into some kind of private ownership. It is a very difficult situation. We are dealing with the World Bank and with consultative groups to try to get the agricultural sector working.

We are dealing with the IMF on their macroeconomic reform. We are trying to work with them on that, but it is very difficult. It is probably the second most difficult economic situation we have in Africa.

Senator KASTEN. I want to state for the purposes of this subcommittee, which is responsible for allocating these funds, that the beginning of your answer, saying this wasn't your job, that I understand you are not the intelligence branch of the government or the intelligence branch of the State Department. But I think in considering large increases in aid that the question as to corruption and the kinds of other problems that are there is a queston that you ought to address yourself to, simply because you are the person that is in charge of asking for these additional funds.

So, it is a concern of the subcommittee. It is something we would like to follow up. It is something we intend to follow up on prior to disbursement of these funds. I am hopeful that we can work together on that.

I understand it is not your job, but I understand you ought to have that information, and we ought to be aware of what the situation is there.

Mr. RUDDY. I will try to get you a better answer for the record. As far as I can say, I think the answer is yes, there is a substantial corruption problem in Zaire. How it compares with the corruption in other countries in Africa and other countries in the world, that I can't say, but maybe we can get you a more complete answer.

Frankly, I am a taxpayer, too, and I share that same concern that the money not go down the tube.

[The information follows:]

## CORRUPTION IN ZAIRE

The question of which country in Africa or the rest of the world is the most corrupt is, of course, a subjective and debatable one. There is little question, though, that corruption is a substantial problem in Zaire and an issue that has received critical attention from the United States and all major donors. AID is attacking the problems on two fronts. First, funds appropriated by the U.S. Congress are followed very closely by the AID staff to be certain that they reach the designated beneficiaries. The basic accounting standards required of an AID recipient are scrupulously followed in Zaire because corruption has been acknowledged, by donors and Zairois alike, as a severe obstacle to economic development. One method of dealing with this is by having many AID programs implemented directly through private voluntary organizations because they enjoy a good reputation. The Public Law 480 title I program has been limited to wheat as a commodity because it can be monitored and controlled through the continental grain subsidiary in Zaire. The counterpart funds generated from title I sales are very closely controlled and disbursed only through a joint counterpart secretariat in which the AID mission plays a significant role. All these initiatives have established the reputation of AID in Zaire as an organization which is concerned about the use of its funds and from which diversion is not condoned.

At the same time we have supported other donors in insisting upon honest accountability with independent checks and controls on earnings from parastatals, particularly in the minerals exporting sector.

## AFRICAN DEVELOPMENT BANK

Senator KASTEN. I don't want to just dwell on negatives, but the subcommittee has also received a number of reports, some of them confirmed recently by testimony from Secretary Regan, that the quality of the management in the operations of the African Development Bank leaves something to be desired. This is the cause of some concern because AID has spent a significant amount of money, funds basically that were allocated for technical assistance but I undertand they were supposed to go for different kinds of managment training and different kinds of assistance in the operation of the bank, and these funds for technical assistance were supposed to improve the management and the operation of the African Development Bank.

No. 1, could you give us your analysis of the management and operational abilities of that institution? And, No. 2, what has happened that the dollars we have spent have not seemed to have helped?

Mr. RUDDY. We are members, of course, of the African Development Fund. We are not actually members of the Bank.

Senator KASTEN. But we have been providing technical assistance through AID to the bank?

Mr. RUDDY. Yes; I will have to get that answer for the record, Mr. Chairman. I simply don't know. I can tell you this: In my visits to Abidjan, I do share your concern that the money that the United States has made available to the Fund is not at all reflected in the procurement done by the Fund. I was there with several businessmen who were visiting Abidjan and some other countries, along with Secretary Block and Secretary Baldrige, on a trade mission. This is not a point or observation that I made and is one made by businessmen, and one we have tried to take some action on.

The point is well taken. I will get some information on the other points.

Senator KASTEN. I am trying to get a sense of whether or not the money was misspent, misallocated. Maybe we can argue it would have been worse if we had not spent the money or given it for technical assistance.

It seems that there are going to be questions about increased participation in varying degrees with the African Development Bank, on our behalf, anyway, and we will have to get more involved. We may not join, but if we are to join, there may be some questions.

[The information follows:]

### AFRICAN DEVELOPMENT BANK

The AFDB group has set impressive goals for itself. The Bank's recently completed 5-year plan (1977–81) provided for an annual growth rate of 25–27 percent starting from very low levels. During the first 3 years, these targets were met or surpassed. Cumulative loans through 1981 brought total Bank group lending to over 2.5 billion units of account for the 1977–81 program, roughly five times the amount loaned in the previous 5 years (1972–76). During the 1982–86 period the Bank plans to achieve rapid growth rates. Heavy demands will be put on the Bank staff to achieve these targets, making expanded technical assistance an important factor in the Bank's ability to develop sound projects to meet these goals.

AID has provided about $14.2 million in technical assistance to the AFDB since 1968. An evaluation of the ongoing AID grant to the Bank, completed in 1980, concluded that U.S. assistance has had an overall positive effect on loan quantity and quality. Examples of successful loans which have followed United States—funded preinvestment studies are (1) construction of the on-shore pipeline and tankage facilities in Tanzania, and (2) construction of sanitary sewerage, stormwater drainage, and solid waste disposal in Sierra Leone. General areas where U.S. technical assistance has had the greatest impact are the following:

Five U.S. professionals working on the Bank staff have been instrumental in administering feasibility studies on behalf of the Bank, have contributed to the informal training of their African counterparts, and have helped bolster the Bank's professional staff during critical years of Bank growth.

$4.6 million in U.S. grant-financed preinvestment studies have led to an investment in Africa of $170 million by the Bank group, with further investment projected. To date, investment following AID-financed studies has amounted to 10 percent of the Bank's total lending (excluding loans for industry, development banks, power supply, and telecommunications) and 5 percent of African Development Fund lending. Availability of U.S. grant funds for these preinvestment studies has enabled the Bank to influence member countries to finance and implement projects of definite ecomonic and social significance and priority.

The Bank has recently established its own Training Center and plans to increase considerably the amount of training activity to be undertaken there in the next 5 years. U.S. assistance to the Bank has most certainly influenced this expansion of Bank training facilities as the United States has made training activities an important component of its technical assistance package.

The AFDB is aware of weaknesses in its management capabilities and has been working closely with a group of U.S. consultants to improve Bank efficiency. A series of studies has already been completed and additional work is currently underway.

To build upon AID technical assistance to date and to complement the recent AFDB management studies, AID is planning a 5-year fiscal years 1983–87 $15 million package of technical assistance to the AFDB to strengthen its institutional capabilities. The project would assist the Bank to: (1) create a staff career system which will attract greater numbers of qualified African and non-African employees, in approximate proportions of two-thirds and one-third, respectively; (2) improve the Bank management data system so that loans may be processed and maintained more quickly; and (3) improve the functioning of critical Bank units, such as the central programing unit, the Planning and Research Department, the evaluation unit, and the Training Center, which will add to the improved functioning of the Bank.

### SAHEL DEVELOPMENT PROGRAM

Senator KASTEN. Last year we reduced funding for the Sahel development program based on the audit reports which showed widespread mismanagement of the Sahel development program frankly by most of the countries that were involved in that program.

Are you confident that these conditions have improved. Have you requested the Inspector General to go in and take another look to review or update the situation there?

Mr. RUDDY. To answer your first question, yes, I feel pretty confident now that we have gotten the kind of accounting problems that faced us the first time under control. I think AID is in control of the Sahel development program. I don't think there is any question but that when this program was put together to meet the emergencies that were faced at that time, a lot of the work that might ordinarily be done was not done.

There was a grand design; it had some wonderful ideas; but the kinds of practical problems—accounting, tracing of sums, et cetera—were not provided for.

I think we came a cropper there. We have now established along with the Department of Agriculture, training programs based on an accounting system that can be adapted to the needs of all the Sahelian countries. We are reviewing all host country accounting systems right now for adequacy. That is one of the reasons that the actual obligation rate for the Sahel this year is a little slower than it might otherwise be, because we are requiring certification of every single accounting system, and it has to be certified by me personally before we can have those funds obligated.

These are the kinds of things that we are doing.

We are also planning a 3-year, $4 million regional and financial program or project to carry this whole accounting, to make it a green and red system throughout the Sahel.

Now, in answer to your second question, have we asked the Inspector General to go out and take another look, no, we haven't, but we did have the controller's office just recently come back, after having gone through the Sahel and taken a look at the various accounting systems they have in place. We will be very happy to give you a copy of the report. It was very high, very upbeat. If it would be wise to have the Inspector General take another look, we will do that, too.

Senator KASTEN. I am pleased. I was just asking that for the purpose of interest, because frankly I think it is a program for which in general there is widespread bipartisan and bicameral support, especially in view of the tremendous inefficiencies and waste and lack of accurate accounting. It has lost the kind of congressional support that it generally would have, and I think deserves.

If you can provide us with a copy of the report you just referred to by the comptroller, I think that might be sufficient.

[The report follows:]

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Agency for International Development

APR 1 1982

MEMORANDUM

TO: AA/AFR, Mr. Francis Ruddy

FROM: M/FM, Curtis W. Christensen

SUBJECT: Mission Director Certifications: Financial Management in Sahelian Organizations

I have just returned from Dakar where I met with Mission Controllers assigned to posts in West Africa. Controllers from Sahelian countries were asked to describe procedures followed by their Missions in reviewing financial management practices of AID-assisted recipient organizations. Such reviews have been performed to provide Mission Directors with information necessary for "Certifications" which have been required by the Africa Bureau for new or continuing project assistance within the intent of Section 121(D) of the Foreign Assistance Act.

Nearly all of the Sahelian post Controllers reported very positive results from efforts to review and improve the financial systems of AID-recipient organizations. Former Peace Corps volunteers and retired AID Controllers have been recruited under contractual arrangements to augment Mission financial management staff; new accounting systems have been developed and implemented; recipient organizations have hired accountants; and, perhaps most importantly, Mission Directors, Project Officers and Controllers have become acutely aware of the joint responsibility to examine and periodically review the financial management practices of AID-assisted organizations.

Country-specific information is included in the following paragraphs. I would also like to note actions taken by the Missions and FM in response to an IG recommendation that attention be given to additional financial management staffing requirements in the Sahel. In addition to the contract assistance which has been obtained by the Missions at their initiative, we in FM have given priority attention to Controller assignments in Sahelian countries. Our efforts have been quite successful in spite of the need to provide rather extensive language training and the difficulty of overcoming assignment impediments such as the lack of adequate schools for dependent children.

Information concerning the certification procedures and staffing follows:

Senegal

Mission efforts to review and improve the financial management systems of recipient organizations began at the time that the IG Audit in Senegal identified deficiencies, and as a consequence, much had been accomplished at the time that the certification requirement was imposed. Senior Mission Controller Ray King recruited two former Peace Corps Volunteers to help initiate, install and monitor accounting systems which he designed for several projects. King completed two tours in Senegal in December, 1981 and has been transferred to Zaire, but before his departure, he prepared a comprehensive report on "Host Government Accounting Systems in Senegal"

Another experienced and very capable Controller, Doug Franklin, completed language training in December and has now replaced King. The review procedures initiated by King have continued, more projects have been certified, and the former PCV's will perform follow up visits for certified projects at regular intervals. The approach to the certification process has been methodical and thorough. The Mission Director has relied upon and accepted the recommendations of the Controller in the certification process.

### Mali

The Mission in Mali has included a condition precedent in newer projects and has issued PILS for ongoing projects to advise recipient organizations of the financial management conditions which must be met. Members of the USAID Controller's staff found in visits to recipient organizations that accountants were not maintaining adequate records and that it was necessary to set up records for some of these organizations. Acting Controller George Jenkins reported that three of the four projects not yet certified will probably be certified but that the MILS-MOPTI project may not be certifiable. No 1982 obligations are planned for this latter project, but it has also been necessary to suspend further payments to this organization pending remedial action on deficiencies. Rolland Deschambault, a senior Foreign Service Officer and one of our most senior Controllers, has been transferred from Zaire to Mali and may be expected to review the certification status of MILS-MOPTI and other projects in mid-April following his arrival at post.

When Deschambault arrives on assignment, the Mission Controller's staff will include three experienced Americans. A retired AID Controller, Arthur Milot, has also provided services in reviewing recipient financial management practices. Finally, we have suggested that the Mission consider contracting for the services of the CPA spouse of one our American staff members. I am pursuaded that the Mission has acted on the solid advice of a capable Controller's staff and that Rollie Deschambault will amply verify my impressions upon his arrival.

### Niger

The Mission in Niger has insisted that an accountant be assigned to each project by recipient organizations and has recruited a retired AID Controller, Jacques Carbonel, to serve as the accountant for a health project. The Mission has attempted to move to a reimbursement (as opposed to advance payment) basis as the preferred method of financing. When the reimbursement basis is not practical, the Mission provides 30 day advances with a requirement that adequate documentation be submitted with subsequent requests for reimbursement. The USAID Controller has set up accounting systems for the ten major projects.

The certification procedure in Niger is based on reviews conducted by two capable, direct hire Americans in the Controller's Office. USAID Controller Boyd Whipple then provides the Mission Director with a report on the financial management status of all bank accounts maintained for individual projects together with his recommendation for certification. The Mission Director sends the report to the responsible project officer to obtain his opinion.

In addition to a very capable three-man American Controller's staff, and recruitment of Mr. Carbonel, the Mission has contracted for another retired financial management officer, Richard Quirk, and the USAID Controller has arranged for a personal service contract with another American at post to perform "end use checks".

It seems to me that the Mission in Niger has undertaken an amply conservative approach and that perhaps the most significant and apparent benefit has been the recruitment of project accountants by the several AID-assisted organizations.

### Upper Volta

John Davison, the Controller-designate for the Upper Volta, has just completed six months of French language training and is awaiting assignment orders. Davison has been one of our senior Controllers in Latin America and was specifically selected for the Sahel as part of our priority placement efforts. The Acting Controller, George Barwicke, and the third American member of the Controller's staff, Matthew Horween, have been engaged in extensive assessments of the financial management practices of AID-assisted organizations. Horween has been engaged in this effort continuously since November 17,1981.

Barwicke reported that the National Accounting System utilized in the Upper Volta cannot be adapted to accommodate AID accounting requirements and that it has been necessary for the Controller's staff to introduce new systems. The Mission has required that an accountant be obtained by recipient organizations for all new projects.

Barwicke also reported that seven of twenty-four projects in the Upper Volta have not yet been certified. The Mission Director has overruled the Controller in two instances in which the Controller opposed certifications, but the Director has subsequently de-certified one of the projects and in the other instance, certification applied to a project which will end in April 1982 The Acting Controller agrees that the Director's opinions have been sound. I believe that the determined efforts of the Controller's staff have led to thorough appraisals and appropriate systems improvements. The certifications of the Mission Director are soundly based on the combined assessments and opinions of project officers and competent financial management personnel.

## Mauritania

Controller Gene Westlake reported that it is common practice for the Mission in Mauritania to establish revolving funds for project use and to look to AID contractors for administration of such funds. Contractors are then required to provide detailed documentation in support of revolving fund reimbursement requests. Seven projects have such contractor--administrated revolving funds and in another instance, a PASA employee co-signs checks drawn on a separate bank account.

According to Westlake, the Regional Crop Protection project and the Rural Medical Assistance project entail payments directly to the Government of Mauritania. We were told that these two projects are now under review and that new certifications will be required inasmuch as certifications submitted in December 1981 were not submitted in the correct format.

My impression is that the financing procedures in Mauritania do not generally require accountability by indigenous organizations and host government institutions and that the certification requirement does not have the same relevance as in other Sahelian countries. If this impression is incorrect please let me know.

## The Gambia

Mission Controller Mike Bradley reported that organizations in the Gambia follow British accounting procedures, that he and a project officer have performed tests of the procedures and that the Gambian Auditor General has agreed to conduct annual audits of the AID-assisted organizations.

## Summary

I believe that Mission Director certifications may be relied upon as evidence of at least minimally adequate financial management systems within AID-assisted organizations in the Sahel. No certification process can possibly assure a fail-safe system of accounting and reporting, nor take the place of audit, but Missions are conducting proper assessments and in many instances, Missions are providing direct technical assistance in the design and implementation of accounting procedures. There is also considerable evidence that the recipient organizations have accepted the importance and urgency of the systems improvement issue and have recruited accountants to administer the revised or newly installed systems. The Missions have recognized that the certification process is not a one-shot or static effort and have established procedures for recurring reviews. Finally, I believe that our priority efforts to assign American financial management staff in Sahelian countries together with Mission efforts to obtain additional assistance under contracts has amply fulfilled the AID financial management staffing requirements in the Sahel. Mission Directors and Controllers have also recognized that a greater percentage of the Controller staff time must be devoted to project-related financial management as opposed to some of the housekeeping chores that are often relegated to the Controller by default.

If you need further information or if I may be of assistance in future certification inquiries, please call.

## POPULATION PROGRAMS IN AFRICA

Senator KASTEN. You are planning a program of 20 percent reduction in the overall population planning program, according to your numbers, although your overall program goes up by roughly 7 percent. Why is that 20 percent reduction occurring in the population program?

Mr. RUDDY. Most of the bilateral assistance programs in Africa are relatively new and require most of the funding up front, in the start-up period, when they are forward funding for several years.

We were initially planning in fiscal year 1983 to fund $4,500,000 for the Kenya program, but at the suggestion of the House Appropriations Committee we accelerated development of that project so that it now appears that it will take place in fiscal year 1982.

Senator KASTEN. The increase in Kenya will take place in AID?

Mr. RUDDY. In other words, ordinarily we would have had $4,500,000 more than what we have down for fiscal year 1983 in the congressional presentation. At the suggestion of the House Appropriations Committee, that program was moved up to fiscal year 1982.

We are prepared to increase funding for population activities where host countries request it, and the proposal is technically sound and supported by the proposed recipient. Most countries that could fall within this rubric are Burundi, Somalia, Uganda.

Senator KASTEN. Increases in population programs?

Mr. RUDDY. Yes.

## ZIMBABWE

Senator KASTEN. Could you give us a current assessment of the political situation in Zimbabwe? We would be particularly interested in knowing how well the private sector in that country is managing, or maybe even flourishing, with the rate of European migration. Do you have any sense that this may be a general overall economic picture for Zimbabwe?

Mr. RUDDY. Yes, Mr. Chairman. As you know, we propose giving $75 million in the ESF each year for 3 years through fiscal years 1982, 1983, and 1984. Of the $75 million in fiscal year 1982, $40,300,000 will be used for the CIP program which will benefit the private sector in Zimbabwe. The government of Zimbabwe has said that in its development plans it intends to rely on private capital for 45 percent of its development needs, so that is a very substantial statement.

I was in New York about a month ago with Dr. Crocker, and we participated in an American Bar Association African-American Institute seminar on Zimbabwe, where they had American businesses that had invested in Zimbabwe and a lot of countries that had not, and Dr.

Sizzaro was there, and he was talking about the prospects for business in Zimbabwe. His point is that apart from the "isms," Zimbabwe was a very pragmatic government, that business should go there; they should find out for themselves what the conditions were like. He basically was very upbeat.

A representative of Heinz was there, and, as you know, Heinz is contemplating a substantial investment in Zimbabwe. I don't think that has taken place yet, but it still seems to be go. The representative from Union Carbide was not completely without some reservations, but maybe that is because he was there and knew the system a bit better.

A few weeks ago you saw the statement by President Mugabe in the paper along a Marxist leftist line at a press conference. We tried to get the text of that. That seems to be a little out of line with the general thrust of Zimbabwe's direction. We certainly hope it is. We are still fairly confident that Zimbabwe exists as a very important market for our own strategic interests, and we think that despite the speech on Karl Marx and things like that, we think that is kind of cosmetic, and we are still hoping that we have no reason to despair.

On the question of white flight, I do know that there are organized procedures whereby the government of Zimbabwe will purchase certain lands from departing white owners, and I believe in the tribal trust areas in a very orderly due process kind of way. The thing that struck me when I was there in Mutarara is that it was pointed out to me the various whites who were returning. I can't tell you that it is 50/50 or it goes one way or the other. There seems to be considerable movement in the ingress direction.

Senator KASTEN. You are confident then that the private sector will remain strong and will have the opportunity to continue to develop?

Mr. RUDDY. I am not confident. I am hopeful. Like everybody else, I saw that thing in the paper. That scared me very much. I think it does not make a lot of sense, given everything else I have seen, for this new departure to take place. I surely hope it can continue the way it is.

Frankly, we have to take a hard look at that right now. Those are very strong statements. I hope it is just a question of translation or something like that.

Yes; I think it makes us take a very hard look.

### TANZANIA

Senator KASTEN. You are requesting a level of funding for Tanzania at about the same level as last year. This comes at a time when a number of the people in the field agree that their economic program, which is clearly socialist oriented, has been a failure—I would say an utter failure. It also comes at a time when Tanzania has not reached an agreement with the IMF and at a time when the government there continues to refuse to take the steps necessary to improve the economy.

There have been suggestions made by a number of multilateral banks and other people. Under these circumstances, why are we continuing the program there?

Mr. RUDDY. I think what you have in a situation like that—and I discussed this with our Ambassador there—is that the first reaction might be to do exactly what you are getting at, that we ought to cut them off because the economic policy is going nowhere; it is a continual situation of going back to square one and starting again always on a kind of Utopian model, which does not make any sense and which leads to failure.

I traveled around through the Tabora and Arusha area and had a good opportunity to meet a lot of people in Tanzania. I could add to what you said, the party control throughout the country in its villages I find scary. Also, in talking to the various ministers and people in the government, there seems to be an awareness of just what you are saying. Sometimes it seems that the only person that isn't aware of it is the President.

We think that if we stay there at these levels, which are modest, that maybe as the economic dawn breaks on the country, we will be there and maybe have some influence.

We are having some influence right now. Our Ambassador comes from Westinghouse. He knows the real world; he is very tough on policy, and he is making some inroads there. I think that allows him to continue to do it. I think that is the reason we are taking that course. We think that it is a good bet, not that what Tanzania is doing right now is so great, but we think by having a good man like Dave Miller there and having some modest support, maybe we will be able to make a difference.

Senator KASTEN. I hope you are right, but I want you to know that there is concern in this subcommittee, and I think it is fair to say in the Senate and the House of Representatives, as well, about the general trend and the seeming lack of ability to take suggestions and move forward in a positive way, even to indicate that they would like to try.

## SUDAN

What is the situation in the Sudan? Can you give us an update on the efforts that some of the multilateral/multinational groups are making to turn the economy of Sudan around? It seems like the immediate emergencies have lessened somewhat the crisis atmosphere, the economic and military crises, but it is still of great concern, I know, to the Egyptians and to others in the region.

Mr. RUDDY. First of all, I think Sudan is simply the most difficult situation we have in Africa. I don't think anybody can say right now how it is going to turn out. There was a Firestone Tire meeting in February of this year and over $300 million was raised, in addition to the IMF drawings. That was a concerted action involving the United States, France, Italy, Japan, the Saudis. The Saudis themselves have actually pledged and come forward with $100 million.

Senator KASTEN. I think that is significant. It is especially true because there are also some political questions there too, as you can imagine.

Mr. RUDDY. The process right now is that the IMF is reviewing the conditions which are required and will continue to have IMF banking going on right now. Later this month this $80 million is due by Sudan to the Paris club. It is a very serious situation.

The vice president of the World Bank is in Sudan right now and may actually be returning, may have returned.

The idea is that we thought maybe we could have a consultative group in Paris on Sudan this summer. I am informed it is not likely to be until the fall because of the difficulties of getting things together, but they have an external debt of somewhere in the neighborhood of $5 billion. If there were no war at all, Sudan would be in big trouble.

The Libyan threat is a very real thing. It is something that concerns us very much because even without that, Sudan has a debt/income ratio of somewhere around 60 to 70 percent. It is a tremendously economically sick country. We are working together on that. I think there has been, I won't say "unprecedented" but unusual cooperation among the donors, the Arab, European, and the Japanese. The idea is to see if we can treat it in the kind of emergency situation that we treated Ghana some years ago.

In terms of willingness, in terms of cooperation with donors, that part has been very good, but the problems are tremendous.

Senator KASTEN. Thank you very much for your testimony.

I appreciate very much your testimony and also your candor in frank, straightforward answers to some of these very difficult questions.

## SUBMITTED QUESTIONS

The record of the hearing will remain open for 2 weeks, during which time Senators will have an opportunity to submit additional questions. We hope you can get those answers back to us.

We are happy that you didn't have to use your two sons to bail you out. We thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### PERSONAL VIEWS ON POPULATION PROGRAM

Senator Kasten: I feel I must ask this next question, although I want to assure you it is not meant to embarrass you. What are your personal views with respect to A.I.D.'s population program? The committee has received some reports of concern that your negative attitude is adversely affecting the population program in Africa.

Mr. Ruddy: The U.S. Government's role in providing assistance in family planning is quite clear in the Foreign Assistance Act of 1961, as amended. I assure you that A.I.D.'s family planning activities in Africa are being provided in accordance with that law. Single issue groups have characterized my attitude toward population programs as negative because three out of six proposed population projects have been disapproved during my first year in the job. Let's look at the record. One project was disapproved because the medical standards to be applied under this activity, along with costing of the project (among other basic problems) were not addressed. In particular, I wanted to know whether the medical standards and procedures were the same as required for consumers in the United States, and if not, why a lower standard for Africans. If there were risks involved, who was deciding whether to accept them, the Zairois or bureaucrats in Washington? Another project was turned down because the International Planned Parenthood Federation had given very low marks to the PVO proposed to carry out the activity, and the question of recurrent costs was not even addressed. It was the worst prepared project paper I have ever reviewed at A.I.D. The third project was not submitted for formal review by our technical staff in Washington because they considered it so poorly conceived and written. In the meantime, as part of an overall Agency review, I reviewed all previously approved projects and all such population activities were permitted to proceed on schedule. I do not intend to approve any programs for implementation, population or any other kind, unless they are technically sound, acceptable to the host government, and a good use of U.S. taxpayers' money.

### ASSISTANCE TO KENYA

Senator Kasten: There are some who feel, given the economic situation, that the level of the program for Kenya is not enough, and that they need somewhere between 5 and 10 additional millions in Fiscal Year 1983. What is your view?

Mr. Ruddy: The Kenya program for FY 83 compares with FY 82 as follows:

($ millions)

| Year | Development Assistance | Food for Peace | Economic Support | Total |
|---|---|---|---|---|
| FY 82 | 24.3 | 19.3 | 10.0 | 53.6 |
| FY 83 | 28.0 | 17.9 | 30.0 | 75.9 |

I feel that the program at these levels is tightly focused to obtain a significant impact and allows us to provide the oversight needed for the disbursement of these funds in a responsible and prudent manner. In my view, the present levels represent an adequate increase.

## LIBERIA

Senator Kasten: Recently the Committee received a reprogramming request increasing the funding available to Liberia by $19 million. I believe the bulk of these funds are to be used by Liberia to purchase oil.

Do you anticipate that U.S. funding of these oil purchases, which has been going on now for some time, will become a permanent feature of our assistance program in that country?

How does the overall situation in Liberia compare with a year ago?

Mr. Ruddy: These funds provide Liberia with the critical additional foreign exchange it needs to help maintain itself through FY 1982. The first $16 million of ESF provided earlier this year was used to help meet the GOL's payments for oil imports and other international obligations through December 1981. The additional $19 million is needed to meet a shortfall in the GOL's financial requirements through September 1982. The funds will be deposited in a GOL account in a U.S. bank to meet its off-shore payments needs and possibly budgetary shortfalls. An equivalent amount will be deposited by the GOL in a special account in Monrovia. Disbursements from this account will be jointly approved by the USG and the GOL and will be used chiefly for development activities within its approved budget. I am afraid the direct grant procedure will be a feature of the Liberian future for the next year or two.

Liberia is still going through a critical transition period. The road to recovery is difficult and may be longer than first expected. There has been little economic progress over the past year. But Liberia is a resource-rich country which will continue to attract outside investment provided the political and economic environments are right. For example, the new Ministers of Economic Affairs and Finance are highly competent and are making a sincere effort to come to grips with the country's economic problems. With help from outside and good domestic policies, Liberia's economic prospects can be brighter by the mid-1980's. Its need for outside assistance can be much reduced accordingly. We are currently providing technical assistance toward accelerating their recovery. To help rebuild the Government's economic and financial management capacities, we will soon provide long term and short term advisors and training in customs administration and in budget management and expenditure controls. In addition, a high level public finance consultant is scheduled to go to Liberia this summer for a few weeks to review the GOL's financial situation and recommend corrective measures. To help redirect development efforts toward increasing production in its primary sector, agriculture, we are currently engaged jointly with the IBRD in a sector assessment. This will also serve as informational background for a study and consulting visit to Liberia later this year by a Presidential Agricultural Task Force undertaken as part of the President's initiative at the Cancun Summit last October.

Although the Liberia economy will remain extremely fragile in the short term, there are signs the situation may improve in the future. Recovery in the prices of the country's major exports is expected to occur over the next several years. Iron ore and timber demand are forecast to remain slack for the immediate future but recovery of major export levels is considered likely during the second half of the decade. Rubber, coffee and cocoa export prices, however, could recover before then, as they are less directly linked with productive economic activities of the developed economies.

In the medium term the Liberian economy, which is based soundly on private enterprise, may well benefit from major new investments in oil exploration, iron ore and uranium. A World Bank off-shore seismic survey was completed recently. The GOL is now selling exploration rights for crude oil and off-shore exploration is to start shortly. If exploitable deposits of sufficient magnitude are found, the revenue situation could drastically improve in the medium term. Discussions are well advanced regarding a joint iron ore production investment exploiting deposits in Guinea which would be processed and shipped through existing facilities in Liberia.

## IG AUDITS IN AFRICA

Senator Kasten: The Africa Bureau has received more adverse Inspector General reports than any other -- although in fairness I should quickly add that the conditions A.I.D. works under in Africa are certainly difficult.

Nonetheless, can this Committee have your commitment that you will keep on top of these recommendations, making sure that they are carried out in an expeditious fashion?

Mr. Ruddy: I believe the audit is a valuable management tool to improve program performance. To emphasize this and to give my views on the audit process and our responsibilities thereunder, we have produced a forty minute video cassette tape which has recently been viewed by Africa Bureau staff in Washington and distributed overseas to all A.I.D. missions in Africa. This tape records a panel discussion, co-chaired by A.I.D.'s Inspector General and me, on the audit compliance function with emphasis upon its legal context within the Federal Government, procedural requirements within the context of A.I.D. operations, and the value of audits to A.I.D. program managers in their ongoing efforts to allocate A.I.D. resources economically and more effectively.

Also, since November 1981, I have written four memoranda on audit matters to the A.I.D. principal officer at all Africa field posts. In these, I have shared my concerns about their responsiveness in correcting audit-disclosed deficiencies and, as well, I have included suggestions and other systematic guidance for pre-audit review and other preventive measures which they should take to preclude deficiencies from occurring.

Quite possibly, the foregoing effort has had some salutory effect in that the number of open audit recommendations in our Africa Bureau has dropped from 92 as of September 30, 1981, to 62 as of March 31, 1982. During that six-month period, 43 new audit recommendations were added, and a total of 73 were closed. I am encouraged by this improvement and my commitment will continue toward further lowering of our deficiency profile in the period ahead.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### LIMITED GROWTH OF AFRICAN PER CAPITA GNP

Senator Inouye: Mr. Ruddy, you paint a very grim picture of economic development in Africa. What would you say is the single most significant factor which has limited average annual growth in per capita GNP in Africa?

Mr. Ruddy: A combination of factors is limiting the growth of per capita income in Africa. Simply stated, income growth has slowed in Africa because, for much of the continent, the aggregate population has expanded to a point where traditional farming technologies can no longer produce the necessary food. The institutions and policies in Africa have so far not been up to the task of promoting widespread technical change and the transition effort has been seriously hampered by large increases in the cost of key imports and capital which took place during the 1970's.

Senator Inouye: Does it now appear that this will continue to be the dominant factor in the decade of the 1980s?

Mr. Ruddy: If African governments implement policies that provide incentives for farmers to produce more and strengthen institutions that develop and disseminate improved production technologies to farmers, we should see modest improvements in per capita income in the 1980s. Of course, this assumes that the cost of key imports and capital will not increase further, and that population growth rates will begin to decline.

Senator Inouye: Does A.I.D. have an Africa-wide strategy for addressing this problem? Clearly no single solution is appropriate for the whole of Africa, but I wonder, is there sufficient coordination of A.I.D. programs to take advantage of the strengths of individual countries?

Mr. Ruddy: In response to the deteriorating food situation in sub-Saharan Africa, A.I.D. has implemented an assistance strategy that has as its centerpiece the increased production and improved distribution of food commodities. This strategy focuses A.I.D. assistance on improving African government policies, building institutions to develop and spread new agricultural production technologies and strengthening local level farmer organizations.

A.I.D. assistance programs in individual countries are coordinated with host country and other donors by resident A.I.D. officers. Regional and Africa-wide programs and projects are adequately coordinated by A.I.D. officers assigned to A.I.D.'s Africa Bureau and its regional officers in West and East Africa.

### AFRICAN RECEPTIVITY TO POPULATION PROGRAMS

Senator Inouye: Rapid population growth is having a significant negative impact on the prospects for development in Africa. Yet, less than two percent of the development assistance proposed for Africa is for population assistance. Why is this? Do you see any signs of greater receptivity on the part of African governments?

Mr. Ruddy: It is true that only a very small part of AID development assistance is presently programmed for population activities in the Africa region. The Africa Bureau is firmly committed to moving ahead with population programs in Africa in accordance with the requirements of the Foreign Assistance Act. It is necessary to emphasize that African nations themselves must WANT our assistance, and must be PREPARED to receive it. That is not only what the law requires, but we have learned through hard experience that money must not be committed too early, or it will be wasted. I would like to assure the Committee of our full intention to carry out the intent of Congress as expressed through the Foreign Assistance Act, while assuring the tightest design commensurate with expeditious project development and the prudent use of taxpayers' money.

Africa is comprised of many countries and the population issue must be addressed country-by-country, and frequently within sections of a particular country. This process is further complicated by a sparsity of reliable data in demographic and migration trends, the relationship of these trends to agriculture, land availability, etc., and the virtual absence of reliable data about contraceptive use in the whole of Sub-Saharan Africa.

Information I have seen suggests a very low contraceptive use throughout Africa. This would appear to be due to various causes. In one country it may be that various interrelated cultures encourage births. For example, tribal power depends on the number of its members. Rural women who are responsible for working the fields and house work need children to help with their workload. When men leave to go to the cities women take over tending cattle. Against this kind of background many children increase the odds that one of them will succeed and bring economic benefits to the whole family; in another country Islam may be a factor which inhibits expansion of family planning services; in many countries, the desire for large families is shaped by centuries of tradition which places a high value on children.

What all this amounts to is that African attitudes vis-a-vis population change and redirection remain politically delicate and culturally sensitive. Clearly, the population question in Africa is many sided and a part of long adaptive strategies of survival. Some African countries encourage births. Some take the position that their demographic trends will follow those of industrialized countries; namely, that birth rates will decline as development proceeds and as infant mortality and disease rates begin to fall. This requires a fully integrated strategy that reduces the vulnerability of food production, reduces infant mortality, provides improved nutrition and health services, and expands education and employment opportunities. In order for such programs to be effective population programs must be viewed as a high priority concern not only by us, but by the host governments. This must be seen as a major concern of theirs and not an issue which the developing world is imposing upon them as a condition for donor assistance. We have encouraged African governments to integrate population growth concerns into their development strategies and plans and are prepared to help them when requests for assistance are received.

The Africa Bureau is prepared to increase funding for population activities where host governments request it and the proposals are technically sound and supported by proposed recipients. As Africans themselves tell me, population programs are not simply a matter of pouring more money and contraceptive devices into African countries. The Agency recognizes Congress' intent that development planning, including population control measures, is ultimately the responsibility of each sovereign country and that United States assistance shall encourage and support but not dictate self-help efforts essential to development efforts.

With reference to signs of greater receptivity on the part of African governments for population assistance, I would note that studies which I read recently said that in Africa, in particular, host countries give low priority to the provision of family planning services and that almost all countries surveyed in the study "favor or require the integration of family planning assistance with maternal child health or other health programs." In the case of UNFPA, half of its family planning assistance represents support for health activities unrelated to family planning. The study contrasts African countries where population policy generally places little or no emphasis on family planning with Asia where the opposite is said to be true.

A well-known African Ambassador supported that conclusion publicly as follows: ". . . And without wanting to bore you with the population issue, it is more realistic for us to revolutionize our agriculture and industries than a campaign of birth control because the present situation is as follows: rural Africa produces many children so a few can live. Urban Africa facing the economic strains of modern societies can no more afford many children. The net result is that an average farming family which had 10 children may end up with only three or four adults. All the others would have died. Will you have the heart to tell such a mother to limit the number of her children? But I will have the heart to tell the farmer to use oxen, tractor, fertilizer and modern methods of farming to increase his food production. . . ."

## RAPID PRESENTATIONS

Senator Inouye: I have been impressed by the RAPID presentations. Have any African leaders seen this presentation?

Mr. Ruddy: Yes, several African leaders and key government officials have personally viewed the presentation and/or referred to it with respect to making major policy decisions Let me list for you some of those leaders and government officials.

CAMEROON, July 1979:

Director and Assistant Director of Planning, Ministry of Economy and Plan;

Assistant Director of Social Development, Ministry of Social Affairs;

Officials of Ministries of Labor, Health, Public Works and Social Services.

President Ahidjo quoted extensively from RAPID presentation during the March 1980 meeting of the Union Party Congress where he outlined economic and social policy thrusts for the next five years.

SENEGAL, January 1980:

Minister to the Prime Minister;
Minister of Public Works, Employment and Work;
Director of Economic Affairs, Ministry of Foreign Affairs;
Director of Cabinet, Ministry of Higher Education;
Director of Forecasting, Ministry of Economy and Finance;
Director General, Ministry of Education;
Director of Ecole Nationale;

Other (30) senior officials of the Ministries of Plan, Health, Education, Culture, Information, and Department of Statistics;

Representatives of the Presidency, National Assembly, Economics and Social Council, nine Ministries, and the Planning Directorate at the Second Annual Meeting of the National Population Commission.

TANZANIA, February 1980:

Prime Minister;

Ministers of Health, Agriculture, Manpower, Lands, Housing and Urban Development, Development Planning, Capital Development, Water, Energy and Minerals; and senior officials of these ministries.

RWANDA, March 1981:

President Habyarimana;
Minister to the Presidency;
Other officials (about 200).

MALAWI, May and June 1981:

Minister of Education;
Minister of Forestry and Natural Resources;
Minister without Portfolio;

Principal Secretaries, health professionals and academics; other officials (about 150).

BURUNDI, January 1981:

Minister of Interior;
Minister of Health;
Minister of Plan;
Minister of Energy, Mines and Public Works;
Minister of Youth and Sport;
Directors-General of several ministries;
Mayor of Bujumbura.

SWAZILAND, May 1982:

Prime Minister Prince Mabandla;
Minister of Finance;
Minister of Agriculture and Cooperatives;
Minister of Health;
Minister of Works, Power and Communications;
Assistant Minister of Commerce, Industry, Mines and Tourism;
Acting Secretary to the Cabinet;
Permanent Secretaries (7).

NIGERIA, May 1982:

Chief Alhaji Okene, Chairman of the National Population Commission;

Commissioners (12), Executive Director, and Secretary of the Commission.

## CAN DONORS REVERSE NEGATIVE TREND?

Senator Inouye: If the population of Africa continues to grow at its present rate, is there any hope that development assistance -- from all donors -- can reverse the negative trend in per capita food production?

Mr. Ruddy: No. Development assistance is not the long-term answer. The ultimate solution to Africa's development needs are the African nations themselves: what they commit themselves to do to bring about their own development. Foreign assistance can help in the short term, but ultimately African nations will control their own destinies.

The primary goal of every African nation is to provide adequate food for its citizens. Food production is the priority of priorities for African nations (cf. the Lagos Plan). Given serious foreign exchange constraints in all but a few oil producing nations, growth in domestic food production is a must. Sub-Saharan Africa is the only region in the world where food production has declined over the past two decades, and this trend continues. In 1980, of the 26 countries in the world which had major food deficits, 22 were in sub-Saharan Africa. Consequently, both the economic and human costs of this critical situation are extremely great. Thus, it is imperative that A.I.D.'s first priority be to assist in reversing this declining trend. Furthermore, African leaders recognize the U.S. as the world leader in science and technology related to food and agriculture and often seek U.S. technical assistance over that of other potential donors. Given the extent and urgency of the food deficit problem, the Africa Bureau gives food production and distribution higher priority in funding and in personnel than other development needs in this region of the world.

From analyses of the food problem by the U.S. and other external donors and of the comparative advantage of A.I.D. and other U.S. institutions, both public and private, three major components of a Food Sector Assistance Strategy emerge. These are:

1. Assist in creating national policies and programs that give farmers adequate incentives to expand agricultural output, especially of food.

2. Assist in building self-sustaining institutions that provide appropriate technology, inputs and services at the time and in the quantity necessary for effective production and distribution of food products.

3. Support institutional and human resource development programs that provide the means for greater participation by farmers in the development process, including policy planning, to build popular support and acceptance of programs necessary for self-sustaining growth.

Over a year ago, we reassessed our assistance program in sub-Saharan Africa and found that a disproportionate share of our portfolio was not directed at addressing the deteriorating food situation. Relatively little attention was being given to encouraging African governments to identify and implement national policies and programs that would give farmers adequate incentives to produce more food and other agricultural commodities.

Furthermore, many of our projects directed at increasing food production strongly assumed that an appropriate package of improved production technology existed that would significantly increase farmers' yields; or it was wrongly assumed that adequate institutions to develop new technology and disseminate that technology and production inputs were in place. And in many instances, little or no attention was given to involving farmer-producers in decision making that impinged on their lives and livelihood through the development of farmer organizations such as primary cooperatives.

This Administration has commenced to redirect our assistance program. The Bureau's Food Sector Assistance Strategy has provided basic program and project guidance for field missions. All field mission program and agricultural project documents submitted to AID Washington for approval are reviewed to assure that they conform to the Assistance Strategy. Additional policy and strategy guidance for field missions is being prepared now in related areas, e.g., livestock development, food aid, nutrition, input subsidies and agricultural research. Also, we are upgrading our staff that implements the food and agricultural programs through close collaboration with the Science and Technology Bureau and BIFAD.

We believe that this redefinition of strategy and the programmed increases in financial and technical assistance to Africa, along with other donors' contributions, will substantially improve agricultural output and thereby increase per capita production.

## DO AFRICANS WANT FAMILY PLANNING?

Senator Inouye: With reference to family planning, you state in your prepared remarks, "It is a matter of what people want, because A.I.D. cannot force countries to accept population programs." Is it really a question of what people want, or is it a question of inability to deliver services?

Mr. Ruddy: FAA Section 104, in summary form (1) mandates the pursuit of population planning programs and activities and (2) recognizes a nation's sovereignty in determining its own population growth policies and provides for voluntarism in accepting population planning assistance.

In essence, the law provides for a balancing of interests. On the one hand, it establishes a U.S. policy of controlled population growth and USG pursuit of encouraging other nations to adopt a similar policy. On the other hand, the law recognizes sovereignty and political and religious sensitivities of the people and nations. Certainly, there can be no force or coercion practiced on a foreign nation, but the statute requires a pursuit of the goal of controlled population growth through various family planning programs. I guess I would be enthusiastic in seeing that countries deal with the population issue in ways sensitive to human values and dignity.

As to what people in Africa want, studies which I read recently said that in Africa in particular host countries give low priority to the provision of family planning services and that almost all countries surveyed in the study "favor or require the integration of family planning assistance with maternal child health or other health programs." In the case of UNFPA, half of its family planning assistance represents support for health activities unrelated to family planning. The study contrasts African countries where population policy generally places little or no emphasis on family planning to Asia where the opposite is said to be true.

Under the Foreign Assistance Act, the provision of family planning services is a matter of political and religious sensitivity. One might add cultural sensitivities as well since the desire for large families is traditional in much of Africa, as is the high value and premium put on children.

My experience in Africa and with Africans makes it clear to me that our population program in Africa is not a victim of our inability to deliver services; rather it reflects the rather low priority given by Africans themselves to our programs. It is for this very reason I have been trying to explore the possibility of initiatives in the population area which would be in sync with African cultural and religious sensitivities.

The Africa Bureau stands ready to assist any country which wants our assistance in projects which are sound and deserving of support by U.S. tax dollars.

## FOOD ASSISTANCE VERSUS POPULATION PLANNING

Senator Inouye: Does it make sense, on moral and ethical grounds as well as practical considerations, to provide food assistance to countries which do not encourage population planning? Is it not true that rapid population growth has such a negative effect on development that our assistance programs serve only to keep more and more people alive at a minimum level of existence?

Mr. Ruddy: As I mentioned earlier, some countries take the position that birth rates will fall as development proceeds. In Africa, the general perception of survival is still closely linked to the number of healthy offspring whose labor can be applied to the family farm. Labor remains the key scarce input in high risk farming systems. Until infant mortality rates begin to fall, the decline in per capita food production is reversed and more modern farming techniques can be introduced, there will be little noticeable impact in reducing fertility rates. It is the primary goal of every African nation to improve declining food production levels, and this is the centerpiece of the Africa Bureau development program.

Africans themselves must accept that they have a population growth problem; we cannot impose our judgment for that of the host country in development planning. The law requires that our assistance be administered in a collaborative style to support the development goals chosen by each country receiving assistance. The population question must be seen as a major concern by host governments themselves and not an issue which the developing world is imposing upon them as a condition for donor assistance. The Agency recognizes Congress' intent that development planning, including population control measures, is ultimately the responsibility of each sovereign country and that U.S. assistance shall support rather than dictate self-help efforts. In the meantime, as required by the Foreign Assistance Act, we have encouraged African governments to integrate population growth concerns into their development strategies and we are prepared to help them when requests for sound projects are received. A.I.D. has funded or plans to fund some type of population activities in 39 of the 48 sub-Saharan countries.

As we address the population issues facing LDC's, we are also addressing other constraints to development which are of equal concern. I am delighted to report that our programs directed at food assistance policy reforms are making an impact. Over the past two years, a number of African countries began to focus on the relationship between consumer-producer prices and producer output. Countries such as Ghana, Kenya, Liberia, Malawi, Mali, Niger, Senegal, Tanzania, Uganda, Zambia and Zimbabwe have increased producer prices for agricultural products. Tanzania has recently revised its pan-territorial pricing policy; Mali and Uganda have begun to remove state controls from food marketing and Kenya, Niger and Senegal are involved in making similar policy reforms.

## THE LIMIT OF CULTIVATION

Senator Inouye: You have noted that, in many areas, the limit of cultivation has been reached. Is Africa, as a whole, losing cropland through desertification, salinization, and other negative effects on arable land?

Mr. Ruddy: Salinity in soils is not a major factor causing loss of land because there are few irrigation projects in Africa, and where there is irrigation, the geography of the land where irrigation water originates is such that the water contains little or no salts and is not alkaline.

Desertification has occurred to a limited extent in the Sahel along the Sahara Desert because of overgrazing and periodic drought. This land can be reclaimed through careful soil and crop management by (a) selecting adapted crop species, (b) conserving water through improved crop husbandry, and (c) controlling grazing.

Two other major negative effects can be noted. One is population pressure which forces cropping of marginal lands (for example, Rwanda, Burundi and Kenya), as well as more intensive continual cropping without replenishment of soil fertility.

The second negative effect is continuous row cropping of lateritic soils in the high rainfall tropics (Nigeria) with the risk of excessive loss of soil through erosion and the degradation of soil tilth which, by affecting ease of cultivation and ability of plants to germinate, emerge and grow, can reduce yields up to 50 percent.

Senator Inouye: Food production increases, in the past, have been achieved by expanding the areas under cultivation. Since the limit of cultivation has been reached, is it likely that the decline in per capita food production will accelerate?

Mr. Ruddy: Limits to area of cultivation have been reached in some parts of Africa where clearing of additional land has been the traditional means employed for expanding food production to meet needs of population growth.

However, production of food can generally be increased in such cases by a transition to more permanent and intensive types of crop cultivation based on restoring soil fertility through a combination of natural and manufactured inputs. Better management of grazing lands is also a highly desirable way of increasing the efficiency of these resources in Africa. In addition, the potential for food production from clearing additional land in tropical Africa has been described by some authorities as very large. However, this potential is diminished in varying degrees by costs incurred in clearing land, controlling soil erosion and degradation, and settling agriculturalists on these lands.

Since the potential exists in Africa for food production to be expanded through both intensive and extensive land use practices, a decline in per capita food production would not be expected as long as farmers have adequate incentives to grow more food, and have access to improved technologies, adequate production inputs and suitable marketing services.

## POSSIBILITIES OF FAMINE

Senator Inouye: Is the margin of safety in Africa diminishing? That is, when rapid population growth, declining food production, and all other aspects are considered, is famine on a wide scale likely to occur?

Mr. Ruddy: Although unfavorable weather will no doubt continue periodically to create local and regional shortfalls in food production, the probabilities of famine occurring on a wide scale in Africa do not appear to be great over the near term, i.e., the next 10 to 15 years.

Over the longer term, however, the cumulative impact of population increases can be expected to outpace African food production if the downward trend in output per capita is not reversed. Accordingly, A.I.D., like the Africans themselves, continues to place highest priority on food and agricultural production and productivity in Africa, and has increased development assistance funding substantially for agriculture, rural development and nutrition projects. To direct this development assistance toward the goals of increased food production, the Africa Bureau's strategy aims to (1) encourage host governments to develop national policies that will give farmers adequate incentives to expand output; (2) assist in building self-sustaining institutions that provide appropriate technology, inputs and services necessary for effective production and distribution of food products; and (3) support institutional and human resources development programs that provide the means for greater participation by farmers in the development process.

## SAHEL DEVELOPMENT PROGRAM

Senator Inouye: The problems of financial management in the Sahelian countries were highlighted in a series of A.I.D. Auditor General reports last year.

What specific steps has A.I.D. taken to correct these deficiencies?

Mr. Ruddy: A.I.D. has reviewed all active Sahelian projects and found that 84 contain local currency components. Within these 84 projects, there were a total of 183 separate accounting stations which required review.

A.I.D.'s Controller staff, with assistance from contract personnel, have reviewed these 84 projects and, based upon the results of the review and corrective actions taken, our Mission Directors have certified the accounting adequacy of 70 projects. Fourteen projects are still under review and have not yet been brought up to minimally acceptable accounting standards.

Senator Inouye: Have these corrective measures been evaluated?

Mr. Ruddy: In May of 1982, A.I.D.'s Controller met in Senegal with each of our Sahelian Mission Controllers to review the certification process in detail. He reported to A.I.D.'s Assistant Administrator for Africa "that he believes that the Mission Director certification process may be relied upon as evidence of at least minimally adequate financial mangement systems -- as long as periodic follow up reviews are undertaken". We are continually monitoring projects to insure that there is no deterioration in the certified systems.

Senator Inouye: What training programs have been initiated?

Mr. Ruddy: A.I.D., in conjunction with the USDA/Development Program Management Center, has developed and is now conducting in the Sahel a financial skills training program for Sahelian project managers and accountants. The training sessions will have been conducted in each Sahelian country by the end of September 1982.

A.I.D.'s Controller staff is also providing on-the-job training for host country accountants in the operation and maintenance of certified accounting systems.

Senator Inouye: Do all new A.I.D. projects in the Sahel have financial management training components and other measures to insure that funds are effectively managed?

Mr. Ruddy: All new projects are being rigorously scrutinized to insure that when authorized they comply not only with the letter of the law (Section 121(d) of the FAA of 1961, as amended) but with the spirit of the law.

In June 1982, A.I.D. will authorize the Sahel Regional Financial and Program Management project which, for a period of three years, will provide the financial management training and other measures required to insure that funds are effectively managed and that host country capacity to adequately handle A.I.D. funds is improved.

## SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee stands in recess until Thursday, May 13.

[Whereupon, at 3:30 p.m., Tuesday, May 11, the subcommittee was recessed, to reconvene at the call of the Chair.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, MAY 13, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2 p.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

### BUREAU FOR NEAR EAST

### STATEMENT OF MRS. W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

### ACCOMPANIED BY CHARLES W. JOHNSON, DIRECTOR OF THE OFFICE OF DEVELOPMENT PLANNING FOR THE NEAR EAST BUREAU

### INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon we will continue our hearing on AID's budget request for fiscal year 1983. Our first witness is Antoinette Ford, Assistant Administrator, Bureau for Near East, who will present testimony in support of the administration's request for that region.

This will be followed by testimony in support of the centrally funded program, and the witnesses will be Dr. Nyle Brady, Senior Assistant Administrator for Science and Technology; Julia Chang Bloch, Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance; and Elise Du Pont, Assistant Administrator, Bureau for Private Enterprise.

Mrs. Ford, your entire statement will be included in the record, and in the interest of time if you could summarize it a bit, then we will go to questions.

Thank you for your help on a number of different questions and problems, and I am sure we have not gotten all of them solved. I am happy to have you here today.

### SUMMARY OF STATEMENT

Mrs. **Ford**. I do appreciate the opportunity to take this time to express our appreciation for being able to work with you in the past. We look forward to our continued relationship.

In the formal statement, which has been submitted to the committee, we are today requesting $1.963 billion in Economic Support Funds and $45.4 million in Development Assistance Funds.

Under a different appropriation we are requesting $323.3 million in Public Law 480, titles I and II, planned for countries in the region. I have these figures broken out by specific countries in the statement.

I am prepared to answer any questions that you might have on the countries in the region.

### PREPARED STATEMENT

Senator **Kasten**. Thank you. Your prepared statement will be inserted in the record at this point.

[The statement follows:]

# PREPARED STATEMENT OF W. ANTOINETTE FORD

ASSISTANT ADMINISTRATOR

BUREAU FOR NEAR EAST

Mr. Chairman, I am pleased to be here today to support the President's request for economic assistance funds for countries in the Near East Region. We are requesting $1963 million in Economic Support Funds (ESF) and $45.4 million in Development Assistance funds. Attached is a table summarizing our request. Under a different appropriation, $323.3 million in Public Law 480 Titles I and II is planned for countries in this region.

For the Middle East, we are requesting $1,593 million in Economic Support Funds. This includes $750 million for Egypt, $785 million for Israel, $20 million for Jordan, $8 million for Lebanon, $15 million for Oman, $6.5 million for the West Bank and Gaza, $8 million for Regional Cooperation and $500 thousand for other regional activities.

U.S. interests in the Middle East are clear. The Administration's overriding goal is to help bring peace and security to the region. Our economic assistance programs are an essential element of this policy.

## Egypt

To help support the economic progress in Egypt, we are requesting for fiscal year 1983 $750 million under the Economic Support Fund, the same basic level as in recent years. In addition, $271.3 million is planned under PL 480 -- $250 million under Title I/III and $21.3 million under Title II. We are proposing that two-thirds of the resources made available under the Economic Support Fund be provided as grants ($500 million). The balance of the Economic Support Fund resources ($250 million) and the PL 480 Title I would be provided as loans payable over a period of 40 years, including a ten year grace period. Interest on the loans would be two percent during the grace period and three percent thereafter.

The Administration's request for Egypt is best understood in the context of the quest for peace and security in the Middle East and the rapidly changing, sometimes volatile, political and economic scene there. The assassination of President Sadat was a shock to the Egyptian people and to the world. The orderly succession of President Mubarak was reassuring, but he has inherited an economy beset with significant problems. President Mubarak has already initiated a broad and open discussion of the country's social and economic goals and priorities as well as the options available to achieve them. He has quickly reaffirmed the economic principles underlying President Sadat's "Open Door Policy" while simultaneously asserting that the ultimate purpose of increasing investment and hence productivity is to meet the needs of all Egyptian people. Attendant with this statement of Egyptian policy is the implication that sacrifices may be required to achieve the goal. We welcome President Mubarak's statement of the goal as well as the Egyptian willingness to seek new thoughts and ideas about how it can be achieved. Still, it should be recognized that the process of sorting out priorities, examining the trade-offs between current consumption and future productivity, and the many other difficult problems which confront the Egyptian economy will take time to resolve.

The Government of Egypt's introspective examination of its economic problems is timely. During the last year, the economy suffered several shocks in addition to the death of President Sadat. First, there was a world-wide softening in the oil market which forced Egypt to lower its export prices. While Egypt was able to protect its export market, lower prices have reduced anticipated foreign exchange earnings. In the near term, there is no basis for expecting a recovery of oil prices, Second, non oil exports declined in real terms, as apparently did receipts from tourism and worker remittances from abroad based upon preliminary data. Data concerning these last two items, combined with significant changes in government foreign exchange regulations, resulted in a sharp jump in the demand for foreign exchange and, hence, an open market exchange rate discount of 20 percent of the new rate. Third, domestic inflation appears to be mounting significantly faster than the official, overall rate of 10 percent, especially for non-subsidized items. Fourth, it is likely that domestic inflation is being fueled by a growing budget deficit and, concomitantly, an apparent rapid growth in the money supply.

Even though real growth of the economy approached 9 to 10 percent in the past year, signs of significant weakness are evident. Large segments of the domestic manufacturing sector are not competitive with imports. Domestic price controls, administrative controls on output, restricted access to credit, an underemployed labor force, and drastically underpriced inputs, e.g. energy, skew the allocation of resources in ways which will not serve the long run needs of the Egyptian development effort.

Over the longer term, sustained economic growth and high levels of foreign exchange earnings will depend in large measure on Egypt's success in rationalizing its industrial and agricultural investment policies to move from capital and energy intensive industries to export-oriented labor-intensive industries. In order to make these investment decisions on a rational basis, the pricing system should be altered to reflect market scarcities.

The reforms can be carried out while at the same time maintaining Egypt's commitment to protect and improve the standards of living of its poorer citizens. The task now is for Egypt to make the policy choices to promote growth, efficiency and equity in the Egyptian context.

During President Mubarak's State visit to the United States in February he sought assurances from the Administration that the U.S. would do its best to provide economic assistance in ways which would be responsive to Egyptian needs and which would also promise more expeditious implementation.

The assurances were provided in the form of an agreed statement of principle between the U.S. and Egyptian governments. It marks the beginning of a dialog to enhance the understanding between our two governments on Egyptian economic goals, policy reforms, sectoral strategies, more effective implementation and the ways in which U.S. assistance can help Egypt realize its considerable potential.

As it completes its sixth year since resumption of U.S. assistance, the A.I.D. program has attained considerable momentum. Total FY 1981 program disbursements were $1,027.1 million, nearly equalling obligations ($1,132.9 million). The most impressive FY 1981 gains were in project disbursements, which at $350 million were up 75% over FY 1980. Higher disbursements resulted from a variety of factors, including the increased use of quicker-disbursing program implementation modes, the maturation of a number of large capital projects, and greater attention to implementation by the Government of Egypt and A.I.D.

A.I.D. program results are increasingly visible in such areas as electric power generation and distribution, village infrastructure, telecommunications, port capacity, commercial transport, urban water and sanitation systems, and an expanded population program which is building on accelerating acceptor rates in both urban and rural areas.

In FY 1983 expenditures will exceed obligations by an anticipated $150 million. The overall pipeline, however, remains substantial -- $2.5 billion at the beginning of FY 1982. While the pipeline largely represents reservations of funds for contracted costs of capital projects now in implementation and on schedule, the pipeline also reflects the existence of some projects experiencing delays in final design or in execution. These latter projects are the subject of intensive dialogue and investigation by our mission in collaboration with Egyptian authorities.

Our FY 83 program of economic assistance to Egypt represents a combination of short-term economic stabilization efforts and longer-term activities aimed at developing self-sustained growth with equity. The main components of the Economic Support Fund program are: $250 million Commodity Import Program to help assure the availability of essential raw materials and capital goods for industry and agriculture, some consumer items and to replenish the Trade Financing Facility; $85 million to increase industrial production and productivity, especially in the private sector; $154 million for infrastructure, including water and sewerage, and a new activity to expand the role of the private sector in housing; $35 million for a new agricultural activity based upon the 1981 evaluation of Egypt's research and extension services and the current review of Egypt's agricultural growth opportunities by a U.S. Presidential team; $98 million to finance the on-going portfolio of decentralization projects; $50 million for two continuing education projects; $50 million for new health and family planning activities to follow current sector assessments; and $28 million for other priority concerns, including manpower planning and development, technology transfer and feasibility studies, and an energy planning activity.

## Israel

For Israel in fiscal year 1983 we are requesting $785 million. Two-thirds of the $785 million in Economic Support Funds is requested as a grant ($525 million). The remaining one-third ($260 million) is proposed as a concessional loan with a ten year grace period followed by a thirty year repayment period. Interest will be at two percent during the grace period and three percent thereafter, highly concessional terms. Together with the proposed FMS credits U.S. economic assistance for FY 1983 tangibly reflects our commitment to support Israel, thereby encouraging it take the further risks necessary to achieve lasting peace in the Middle East.

Despite many serious problems, in particular the redeployment of military units from the Sinai, the continuing large oil import bill, and economic stagnation in Western Europe and North America, Israel achieved notable economic success in 1981. All major components of GNP grew impressively. At the same time, the rate of inflation dropped to 102 percent, still much too high, but an improvement over the 111 and 133 percent rates recorded in 1979 and 1980, respectively. Exports were up 5-6 percent over 1980, while civilian imports increased at a slightly higher rate. Overall, the non-defense goods and services deficit was probably between $2 and $2.5 billion as compared with $2.1 billion in 1980. Further, since Israel's foreign exchange reserves continued to grow in 1981, it may be inferred that net capital flows were sufficient to finance the current account deficit and the amortization of Israel's external debt.

Despite the progress achieved in 1981, Israel's basic problems remain unresolved. It must find a way to contain inflation and at the same time restore equilibrium in the balance of payments, and it must achieve these objectives without massive unemployment.

As in the past, the ESF cash transfer program will be implemented on the assurance from Israel that it will import non-defense goods from the U.S. in an amount at least equal to the cash transfer level and that Israel will follow agreed procedures for selecting dry bulk carriers to ship grain.

## Jordan

In fiscal year 1983 we are requesting $20 million for Jordan in Economic Support Funds, the same amount originally requested for FY 1982. Of this amount, $15 million would be in the form of loans, with a twenty year repayment period, appropriately reflecting Jordan's "middle income" status. Over the past five years real growth in Gross Domestic Product has averaged 9 percent per annum. Jordan continues to enjoy an overall balance of payments surplus, stemming from worker remittances, strong export performance and economic assistance provided under the Baghdad Agreements (amounting to about $1.2 billion annually).

Water remains Jordan's priority development problem. Per capita daily consumption, approximately 50 to 60 liters per day, is well below the World Health Organization minimum-safe health standard of 80 liters. Supply and distribution must be expanded, and use, including reflows, intelligently and conservatively managed. In FY 1983, $17 million of the $20 million requested will be used for construction of water and sewage systems for the towns of Karak and Ma'an as well as technical assistance to the national water authority. These three projects are part of a country-wide development plan for urban water and sewage services to deal with problems derived from rapid urban growth. The balance of $3 million proposed for FY 1983 is planned for the Development Administration Training III project to finance the training of Jordanians in the United States.

## Lebanon

Political discord and violence continue to plague Lebanon. The central government continues to seek national reconciliation and to extend its authority throughout the country, but a variety of illegal armed groups and militias are reluctant to cooperate and frustrate the government's efforts.

In fiscal year 1983 the Administration is requesting $8 million in Economic Support Funds of which $4.5 million will be channelled through U.S., Lebanese, and international private voluntary organizations operating in close coordination with the Government of Lebanon. We believe this is one effective way our funds can support our political interests in Lebanon. The funds requested will continue our support of health education, credit cooperatives, vocational training, and private social institutions. These programs contribute directly to the welfare of the Lebanese people, especially lower income people most affected by the civil strife. In addition, the FY 1983 program will help strengthen Lebanese institutions in the reconstruction process by melding U.S. expertise with substantial flows of non U.S. funds. To this end, $1 million is proposed for technical assistance to the Council for Development and Reconstruction and $2.5 million to establish an authority to administer Lebanon's national waste management program.

## Oman

For Oman, we are requesting $5 million in grant funds and $10 million in loans for the Omani-American Joint Commission, the same level requested for FY 1982. The Joint Commission was established in 1980 as a part of our expanded economic, political, and security relationship with Oman. The Joint Commission finances development investments, offers opportunities for training, and facilitates commercial and technological exchanges between the two countries.

Oman, with its current oil revenues, has substantial financial resources; yet it remains a very underdeveloped country. With few natural resources other than petroleum and a largely untrained labor force, it faces the challenge of developing an industrial capacity and its modest agricultural and fishery potential to meet the needs of its people as oil revenues diminish. The planned aid programs will assist the process of equitable development in Oman and provide tangible evidence to the Omani population of the benefits of our broadened relationship. The $10 million loan is planned for a dam and related facilities to increase the supply of water to the capital city of Muscat.

## Regional Activities

We are requesting $6.5 million to continue our modest development effort for the West Bank and Gaza Strip. This program finances small scale development projects benefitting the predominantly rural and poor population. As in the past, the program will be implemented by U.S. voluntary agencies with Middle Eastern experience. Emphasis will continue to be placed in the areas of pre-school, vocational and higher education, health, sanitation, and land reclamation for agricultural development and improved community water systems.

We are also requesting $8 million in fiscal year 1983 to fund activities that can promote cooperation between Israel and its Arab neighbors, especially Egypt. Joint research projects have been started in the marine sciences, e.g. oceanographic, aquaculture and lakes management, involving U.S., Egyptian and Israeli institutions; infectious diseases; and psychological perceptions of the Middle East conflict. These activities bring Arabs and Israelis together on problems of mutual interest and may lead to self-sustaining relationships. For FY 1983, funding will be required for these on-going activities and to finance new proposals in such fields as agriculture, health, energy, and water. We anticipate that other activities will become possible as the normalization process matures.

Finally under the Regional Program, we are requesting $500 thousand in FY 1983 to finance studies which relate to the design, implementation and evaluation of Economic Support Funds in the Near East region.

For Europe, we are requesting for Fiscal Year 1983 $350 million for Turkey and $20 million for Portugal.

## Turkey

We plan to provide $350 million for balance of payments assistance to continue support of Turkey's economic stabilization program developed with the help of the IMF, which continues to monitor performance. We plan to provide the assistance in the form of a $250 million grant and $100 million loan, repayable in 20 years with a 5 year grace period and 5 percent interest throughout. The Turkish government has shown great political courage in implementing its economic reform program. It needs and deserves the continued support of its allies and friends. We will do what we can to encourage this support.

The Turkish economic stabilization program was adopted in January 1980. Its major features are the maintenance of a realistic foreign exchange rate, elimination of government subsidies to cover operating losses of most State Economic Enterprises (SEEs), fiscal and monetary austerity, elimination of most price and interest rate controls, and liberalization of the foreign investment regime.

Turkey's performance in 1980 and 1981 provides strong evidence that the new policies have taken hold. Wholesale prices, which doubled in 1980, increased by only 25 percent in 1981. GNP grew about 4.5 percent in 1981 compared to absolute declines in 1979 and 1980. Exports surged in 1931. This coupled with strong growth in remittances from Turkish workers abroad and modest import growth, led to an improved balance of payments outcome. The current account deficit declined from about $3 billion in 1980 to $2.1 billion in 1981. Continuing assistance is needed to maintain the momentum of this stabilization program.

## Portugal

The $20 million request in grant funds for Portugal is in accordance with the exchange of diplomatic notes dated June 18, 1979 between the United States and Portugal regarding Lajes Air Base in the Azores. In addition to military assistance, the United States also agreed to provide $80 million in economic assistance, subject to Congressional authorization and appropriation. The FY 1983 funds will be in the form of a cash transfer for the fourth and final tranche which the Government of Portugal plans to use for the economic and social development of the Azores, one of the least developed regions of Portugal where the per capita income of $700 is only one third the national average.

Overall, Portugal's economic situation has improved markedly due to a conscientious application of an IMF stabilization program begun in early 1978 and with balance of payments assistance from fourteen countries, including the United States. In 1980 GDP grew by 5.7 percent, inflation declined sharply, and real wages increased for the first time since 1976. However, the balance of payments has deteriorated as the result of drought, slowing export growth and the oil import bill, and probably exceeded $2 billion in 1981. Financing the deficit should not pose an immediate problem given Portugal's credit standing, substantial gold reserves and access to IMF resources. The Portugese Government is concerned, however, over Portugese ability to continue to finance such large imbalances and has instituted a tough austerity program to reduce deficits and to keep the economy under control.

For the next three years, A.I.D. will oversee the completion of several on-going projects and continue to provide some technical assistance and training. The pipeline has been reduced to $30 million and the current program should be terminated by the end of 1984, except for commitments to the Azores related to Lajes Air Base.

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## Development Assistance Programs

In addition to these ESF programs, we are requesting $45.4 million in Development Assistance funds for programs in Morocco and Yemen and for regional activities. In comparison to the ESF program in the Near East these requests are modest. Nevertheless, they will finance programs critically important to the development plans of these countries.

## Morocco

Morocco is a long-standing friend and a country with considerable interest in U.S. trade and investment. Almost half the 21 million people subsist at poverty levels. Morocco faces an array of serious economic problems. The 1981 drought -- the effects of which continue into 1982 -- severely reduced agricultural production, making it necessary to import 3 million tons of grain and thereby widening the trade deficit to about $2 billion. The economy is further hampered by the cost of the Sahara conflict, low productivity in agriculture and many public enterprises, almost total dependence on imported energy, a 3% population growth rate, and excessive import demands. The Moroccans have negotiated an IMF standby credit and a Compensatory Financing Facility (cereals option) arrangement which will help the ailing economy through its current severe financial squeeze. Morocco will depend heavily on external concessional aid in the next few years to help with its domestic problems and to enable it to finance its heavy debt service obligations, presently estimated at more than 30% of foreign exchange earnings.

In FY 1983 a total of $13.5 million in grant Development Assistance funds is requested which will directly address key Moroccan long-term development problems. A.I.D.'s agricultural program is increasingly focussed on rainfed areas where productivity is low and where most of the rural poor live. Projects in the agriculture sector include cereals production, applied research, and range management. Our high priority family planning project is showing progress as results of pilot activities are being replicated on an expanded scale in several areas of the country. The health program will include a continuing management improvement activity and a nutrition project which integrates Development Assistance grants with PL 480 food resources.

## Yemen

We are requesting $27.5 million in Development Assistance grant funds for the Yemen Arab Republic (YAR) in FY 1983. Yemen's geographic location makes the country's stability and prosperity important to its oil producing neighbors and to the U.S. The YAR is threatened by a Marxist-led insurgent movement which is supported by the People's Democratic Republic of Yemen and Libya, and indirectly by the Soviets. The United States attaches great importance to the security and independence of the Yemen Arab Republic. We strongly support the right of the Yemeni people to develop their political, economic, and social institutions according to their own wishes and without foreign intervention. The U.S. assistance program, by addressing the economic and social causes of instability and poverty, both supports this goal and helps promote U.S. interests in maintaining the stability and security of the region.

While Yemen is a very poor country by usual social-economic indicators, GNP grew explosively through most of the 1970s. However, as remittances peaked and then began to decline, foreign exchange reserves have declined, government deficits have appeared and the balance of payments deficit has worsened dramatically. Given a very meager natural resource base, the YAR's most promising approach to development continues to be the mobilizaton of the country's human resources for agriculture and other sustainable enterprises.

Our development effort in Yemen focuses on a broadly based program of training and technical assistance to develop human resources and institutional capacities in such key sectors as primary education, agriculture, water resources, and rural development. In implementing this approach we are relying heavily on U.S. universities and private voluntary agencies. $25 of the $27.5 million requested is for on-going projects.

## Regional Projects

In addition to these country programs $3 million is requested to continue a scholarship program for students from the Near East area at the American University of Beirut, $500 thousand for project development and support requirements, and $900 thousand for a new regional population activities project.

Thank you Mr. Chairman. I would be pleased to answer any questions you may have.

($ millions)

| | FY 1983 |
|---|---|
| Economic Support Fund | 1,963. |
| Egypt | 750.0 |
| Israel | 785.0 |
| Jordan | 20.0 |
| Lebanon | 8.0 |
| Oman | 15.0 |
| West Bank/Gaza | 6.5 |
| Regional Cooperation | 8.0 |
| Project Development and Support | .5 |
| Portugal | 20.0 |
| Turkey | 350.0 |
| Development Assistance | 45.4 |
| Morocco | 13.5 |
| Yemen | 27.5 |
| Regional | 4.4 |

## SECTOR-BY-SECTOR PROGRAM BASIS

Senator **Kasten**. In a recent visit to Egypt, one of the concerns that they had as to economic assistance is the project-by-project nature of the programs. After checking into it, I couldn't help but be impressed by the fact that we have a huge and maybe cumbersome AID bureaucracy of something like 250 people, and the Egyptians have a huge and cumbersome project-by-project bureaucracy setup that was maybe even more complicated than ours.

I discussed with a number of Egyptians the idea that we could start to fund these programs on a sector-by-sector basis rather than on a project-by-project basis, or possibly go through some kind of a cash payment the way we treat Israel, where we just basically let them manage the money.

What is your position on this? I understand there were some doubts about the ability of the Egyptians to run some of these projects on their own without our support and without our management help.

Is it possible that we could shift to the sector-by-sector program or to a full cash grant, and if we did, what kind of problems would that cause?

I am also interested in knowing if it is possible for us to cut down the time factor.

In the background of all of this, as you are aware, is that the pipeline for Egypt is clogged, to say the least. It is the worst backlog we have, and am I right in guessing one of the reasons for this huge backlog is the fact that we have this organized project-by-project, and we have our ideas and they have theirs, and things never get done?

Mrs. **Ford**. I will attempt to be responsive to all of the elements of your question. If I don't hit all of them, please guide me along that path.

Specifically we do concur that there are efforts, managerially and programmatically, that we, the U.S. AID in conjunction with the Egyptians, can take to improve how we are managing and implementing projects in the Egyptian program.

To that end, we are currently programing and running a number of activities in a sectoral manner. For example, there is the decentralization portfolio, which is a number of projects that are aimed at basic village services, provincial cities, neighborhood urban services, et cetera. These projects are being restructured on a sectoral approach. We are able to say already that this approach will be a successful way of moving the funds faster.

We stated in the memorandum of agreement reached between the Egyptian Government and the U.S. Government during President Mubarak's visit here in February, that we will work closely together to identify other areas, programs, and sectors where we can be even more responsive in this regard.

Specifically on incremental funding, this is historically a common approach for technical assistance projects in many countries; however, in Egypt we have generally operated on a life of project funding basis. That is, all of the funds are obligated when the project agreement is signed. What we would like to do, or rather what the Government of Egypt has asked, and we have agreed to consider, is greater use of incremental funding, so as not to tie up funds which could be used for other priority initiatives.

In addition, the Government of Egypt views our commodity import program as an effective mechanism to support both economic stability and development objectives. It is these types of initiatives that we want to continue.

We also need to emphasize and point out that we look for ways to manage and improve the management of our programs and be responsive to the concerns that you have expressed. We are doing this, and we will continue to do it in the context of policy initiatives and reforms that the Egyptian Government plans and will take on its own part, which we feel we can support in our program and with the flexibility that will allow them to take those reforms.

Senator KASTEN. Those are two different questions. If you are talking about more private sector initiative and trying to work out something about the food policy, we can do that where we fund project by project or sector by sector, though, can't we, or did I misunderstand the last part of your answer?

Mrs. FORD. No; you didn't misunderstand the last part, sir. The point I was trying to make is that when we entered into the memorandum of understanding in February, when President Mubarak was visiting, one of the things we pointed out was that as we begin to look at how we manage our program in Egypt, in terms both of creating a more flexible program managerially and of faster disbursing funds, we would assist them where they were attempting to implement economic policy initiatives. We would assist them by structuring our assistance in a manner to help them carry out their reform efforts.

### EGYPT PIPELINE

The other element of your question to me had to do with our financial pipeline in Egypt. It is accurate that our pipeline has indeed been a problem. We have been questioned about it for a number of years. Certainly it was a problem that, in going through a portfolio review myself in first coming to the Agency, I was very much aware of.

However, I would like to point out that in dollar figures, the pipeline for Egypt right now is $2.5 billion. We are estimating, and this is based on calculations of the projects that we currently have, that we should be able, by next year, to reduce that pipeline to about $2.4 billion and in the next year, which would be fiscal 1984, to $2.3 billion.

I haven't forecast big jumps or big leaps. The significance in our estimates, even the small reductions, is that until this year the Egyptian pipeline has continued to grow as opposed to leveling out or going down at all.

Senator KASTEN. It is like budget deficits, and you want to show a trend in the right direction?

Mrs. FORD. It gives us a goal to work for.

Senator KASTEN. If it can go more the sector-by-sector route than project by project, the process can work faster, and we can look forward to reducing that backup even more?

Mrs. **Ford**. It certainly seems to us that it would be helpful if we could have the flexibility to go sector-by-sector, and indeed we could further reduce the pipeline.

### INCREASED EGYPTIAN PARTICIPATION

Senator **Kasten**. Am I correct in assuming that the reason we have been going project-by-project is that we have sensed that the Egyptians needed project-by-project management help, and that now they have better technical and management expertise and are better able to go sector-by-sector and manage more on their own than maybe 5 years ago?

Mrs. **Ford**. It is accurate to say that their knowledge of our system and our knowledge of their system, the working together and the cooperation in terms of managing projects, identifying and developing projects, that ability has significantly increased.

In fact, one of our additional objectives is to encourage and increase the use of Egyptian technicians in the projects. So, yes; you are accurate in pointing that out.

Senator **Kasten**. Am I correct in assuming that if we go sector-by-sector rather than project-by-project, and employ more Egyptian management and technical expertise, that we can reduce some of the AID bureaucracies and some of AID personnel now in Egypt?

Mrs. **Ford**. I would say that the number of officers, our direct hire U.S. personnel in Egypt is not an overload of people. That is, we do not have an excess of staff there relative to the size of the program. It is a very large program, $750 million per year, and it is not a mission that is underworked or not obviously employed in project management and development.

In terms of the number of people in the mission, the figure is 135 U.S. personnel, and we are expecting an increase of only 1 individual for the next fiscal year.

But it is also accurate to say if we were to go to a sector-by-sector approach that we would be able to expedite the projects. We would be able, perhaps, to reduce the need for as much planning leadtime because we would be looking at whole sectors as opposed to a number of projects.

But I am not certain that it would decrease the number of American personnel that would be resident in Cairo, or in Egypt.

Senator **Kasten**. I am pleased with your response.

I want to point out, though, that none of what we are talking about has been reflected in any documents, and it is not reflected in your 1983 program, so we are going to move forward on some of these assumptions despite the fact that it is not a part of your request.

Mr. McPherson and others have been going along with this, and I think that we ought to go forward with it.

You were talking about the White House document regarding greater support for economic progress in Egypt, and I would like to make that a part of the record at this point, immediately following this group of questions.

## DEOBLIGATION AND REOBLIGATION AUTHORITY

Another issue which we have talked about for some time is whether or not to provide the Agency with deobligation and reobligation authority. I think this could be especially helpful in Egypt, and it is something that the Egyptians are aware of and are concerned about, too.

Instead of waiting for you to request this authority, and we have asked for you and for Mr. McPherson to request it, particularly Mr. McPherson, the committee might go ahead and give it to you.

If we did give you deobligation reobligation authority would you in fact use it?

Mrs. FORD. What we would benefit significantly from, particularly in our Egyptian program, is the flexibility that would be provided by deobligation and reobligation authority. As I understand it, the concern with deobligation and reobligation has to do with its being considered new budget authority. What we are very interested in is having the flexibility that would allow us to reprogram our projects when significant problems arise. However, given the problem with new budget authority, making funds available until they are expended, so called no-year money, as requested by the administration, would be most helpful in providing needed flexibility.

[The document "Greater Support to Economic Progress in Egypt" follows:]

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THE WHITE HOUSE

OFFICE OF THE PRESS SECRETARY

## GREATER SUPPORT TO ECONOMIC PROGRESS IN EGYPT

WHEREAS:

—Egypt and the United States have been full partners in the pursuit of peace in the Middle East;

—Egypt and the United States are full partners in the pursuit of regional stability and in the continuation of peace in the Middle East;

—The United States has cooperated in the economic development of Egypt through a program of assistance to the Egyptian Government in recognition of the sacrifices made by the Egyptian people;

—The Government of Egypt has announced its intentions to undertake its own program of economic reform that utilizes the initiative and capabilities of the Egyptian people;

—Egypt has, with substantial U.S. assistance and the infusion of other external resources, strengthened its economy and rebuilt much of the capital and social infrastructure base;

—Egypt has entered a period of economic progress that will require its own management of substantial external resources, including continued U.S. assistance;

—It is in the interest of both Nations to assure the success of the economic reform program in Egypt in a manner that recognizes the substantial capabilities of the Government of Egypt to accomplish its intentions and the continuing commitment of the U.S. to provide resources that may be utilized to this end.

NOW, THEREFORE:

—The U.S. endorses the intentions expressed by the Government of Egypt to acknowledge the continued need for economic reform and progress and to undertake necessary measures towards that end;

—The Government of Egypt expresses appreciation for U.S. assistance and the significant contribution it is making to Egypt's present stage of development and to the enhancement of living conditions in Egypt;

—Both Nations recognize Egypt's commitment to improving the efficiency with which it uses its human and financial resources;

—Both Nations are now embarking on a new phase of greater interest in Economic Progress in Egypt with a view toward making U.S. assistance, as permitted by U.S. law, be of an optimum impact and to assure Egypt a more active role in the allocation and disbursement of the U.S. assistance.

ACCORDINGLY:

1. The two parties agree that directing U.S. economic resources into program assistance in support of Egypt's sectoral strategies can significantly improve overall sectoral efficiency and therefore they shall seek means for increasingly programming resources in this manner. Under sectoral funding Egypt shall be responsible for the design, implementation and evaluation of specific activities, the allocation of resources to those activities, and related policy objectives within each sector.
2. The use of incremental budgeting can increase the flow of assistance and expand its effectiveness. The current program and planned new activities will be reviewed to apply this budgeting principle. To the maximum extent consistent with Egypt's sectoral strategy and specific nature of the financing of capital projects, U.S. assistance will be provided on an incremental basis, thus assuring maximum current distribution of the resources transferred.
3. The two parties agreed that the Commodity Import Program can play an important role not only for financing imports of consumption and intermediate commodities but also for investment in productive enterprises and to support structural program adjustment. Both parties agreed to consider additional means for using the CIP in support of development objectives. Specifically, the parties agree to consider programming $350 million for CIP in fiscal year 1982, of which $300 million will be obligated immediately, and to consider an increasing level of CIP financing in future fiscal years.
4. Egyptian professional and technical experts shall have wider opportunity to participate in the design and implementation of all projects and programs funded through U.S. assistance programs.
5. In recognition that the assistance pipeline of obligated but undisbursed funds represents a substantial resource available for economic progress in Egypt, both parties agree to develop effective ways to accelerate the utilization of these funds.

### DEFICITS IN EGYPT'S BALANCE OF PAYMENTS

Senator **Kasten**. We have reviewed the report on the Egyptian economy and debt prospects and also the "Greater Support to Economic Progress" mentioned in your economic progress in Egypt agreement. The debt burden report appears to project substantial deficits in Egypt's balance of payments for the next several years.

It seems that a conscious effort to carry out the agreement of February 4 would help lessen Egypt's balance-of-payments deficits.

It also seems that carrying out this agreement would reduce the chances of the future pipeline buildup and enable the AID mission to concentrate on eliminating the existing pipeline. As you are suggesting, we are working in the right direction, perhaps not as fast as we like, instead of working up new projects.

I think that has to be done.

Our reading of this agreement is that it requires the United States to continue to provide resources to Egypt which shift the responsibility for the selection of projects from the United States to Egypt. You have said that is the direction in which we want to go.

So to carry out the general purposes of what you and I are talking about, several specific objectives are to be accomplished.

## SHIFTING TO SECTORAL ASSISTANCE

What specific "nows" are there in your plan to shift future programs to the sectoral program assistance, specifically?

In other words, we have not had it in the 1983 request, and there are specifics that you could point to, to show that you are in fact planning to shift.

Mrs. FORD. Are you referring to this?

Senator KASTEN. From project to sector.

Mrs. FORD. I would point specifically to those efforts or management tools that we are currently using to the best of our ability, and hopefully will be able to broaden.

Specifically, I am referring to our decentralization project portfolio. That is about a $269 million portfolio of projects, a combination of six elements, or subprojects in that portfolio.

At any given point in time if one of those subprojects is not moving as quickly as we would want it to move, but there is another one that could benefit from having access or use of those funds, we have some flexibility under the sectoral approach to shift those funds, and it does not require any more than the management tools that we currently have.

That is one approach that we are attempting to use and, hopefully, we will be able to identify other sectors where we can go in this direction.

Senator KASTEN. I don't mean to pin you down to specifics now, but I wanted to get some ideas. Maybe for the purposes of the record you might be able to prepare more complete answers to some of these questions.

[The information follows:]

## SECTORAL APPROACH

This fiscal year we have already identified two additional areas—energy and productive credit—which will utilize the sectoral approach. The energy sector program will provide technical assistance in energy planning and analysis, renewable energy, and utility management. The productive credit program will help meet a wide variety of private sector credit needs.

We have had preliminary discussions with the GOE for sectoral programs in agriculture and health. In agriculture, a Presidential Mission headed by Dr. E. T. York, recently completed a review of the potential for increasing production in Egypt. The York team is now reviewing U.S. and Egyptian comments on its draft report and should present its findings to the Egyptian Government this summer. AID is hoping to be able to put together a sectoral program, based on the York team's recommendations, which will support economic reform actions the Egyptian Government has indicated a willingness to adopt in the agricultural sector.

In health, a health sector assessment is underway with the active participation of the Egyptian Government. The assessment will review progress to date in providing basic low cost health services, and identify the remaining constraints to the most cost-effective means of intervention for improved health services. The result should be a fiscal year 1983 Community Health Support program which will finance a wide ranging package of health sector activities.

## INCREMENTAL BUDGETING

Senator KASTEN. The other thing we are concerned about specifically, is incremental budgeting. What are we doing right now to accomplish the cash flow or incremental budgeting in economic aid programs similar to the way we treat the FMS programs? Are we moving in that direction?

Mrs. FORD. We are moving in that direction, Senator. I would be more than willing to respond to that in the record rather than trying to speak off the top of my head and without having specific figures here.

[The information follows:]

### INCREMENTAL FUNDING

What we are trying to do is directly relate the timing of our project obligations to expenditure or contracting requirements for a specific fiscal year. In accordance with A.I.D. policy, we normally have obligated in the first year the entire amount needed for projects over their multi-year implementation period. In the case of Egypt, we are now postponing obligations for separable project components where we know that the funds will not be required until a later fiscal year.

For example, while AID recently approved allocation of $100 million for rehabilitation of the Francis Runners at the Aswan High Dam, only $85 million was obligated this fiscal year. The amount obligated has been used to finance a contract with Allis Chalmers. The remaining $15 million will be obligated in fiscal year 1983 when commodity procurement begins. Obligations for technical assistance projects will be spread out even more.

### GRANTS VERSUS LOANS

Senator KASTEN. It is my intention to try to follow this through over the next several months, and I know it is of concern and of interest to other members of the subcommittee, and I think to other Members of the Congress.

Have you considered making the economic support funds for Egypt 100-percent grant rather than two-thirds grant?

Mrs. FORD. We have, as have two previous administrations, requested a two-thirds/one-third grant loan split for Egypt as we have for Israel. In analyzing the information that is provided to us and analyzing the ability of the countries to service their debt, we feel that this is not an undue burden, even though there are economic concerns and issues that Egypt must deal with. They would be able to service their debt effectively over the next several years.

It is with this information and with this approach in mind that we have not requested an all-grant allocation for Egypt.

I should mention that the terms for the loans are very soft. It is a 40-year repayment schedule with a 10-year grace period. It is 40 years total with 2-percent interest in the grace period and then 3-percent interest thereafter.

### PUBLIC LAW 480 PROGRAM

Senator KASTEN. I have a couple of questions that we want to raise with you in terms of the Inspector General's findings.

First of all, in the Public Law 480 program Egypt continues to be a problem according to audit reports we have received.

What are you doing to correct the problems that have been pointed out?

Mrs. FORD. Specifically with regard to Public Law 480 levels, as you are aware, our request has been reduced. The Public Law 480 level request has been reduced to $250 million and that is the direction and emphasis that we have taken at this time, to reduce the amount of the request.

Senator KASTEN. So you are supporting that reduction?

Mrs. FORD. Yes, we are.

### CYPRUS AND TURKEY

Senator **Kasten**. I think the House authorizing committee has already acted on this question, but there has been an outcry as a result of the administration's decision not to ask for any funding for Cyprus.

Why are you not seeking such funding, and if Congress should choose to make some dollars available for Cyprus what kind of programs would you fund there?

Mrs. **Ford**. We did not choose to seek funds for Cyprus because, I believe, in the period 1974 through 1981, the U.S. Government had provided $131,500,000 specifically as was reported in the GAO report on our program in Cyprus.

We had effectively responded to the housing needs in Cyprus. That was the primary purpose of the program, and we were able effectively to house those people that had been displaced in Cyprus.

Senator **Kasten**. This is the refugee assistance program that was going into housing?

Mrs. **Ford**. It was primarily housing and hospital construction. As you are aware, we don't have AID personnel in Cyprus, and since we felt we had accomplished that purpose, it would be much more accurate for us to not request funds for Cyprus. We haven't seen any information that would support our making a request at this time for Cyprus.

At the same time, we do have scholarship programs in Cyprus, and the students will be arriving in the country in September of this year.

The second part of your question was what would we do. We have not had an opportunity yet to look at that specifically enough to be able to be responsive at this time. I would be happy to respond in writing for the record.

[The information follows:]

### CYPRUS FUNDING

Since A.I.D. is not asking for funds for Cyprus in fiscal year 1984 we really are not prepared to discuss what we would do if funds were made available. As I've said we feel that we have responded effectively to the needs of the Cypriots displaced in 1974 and that no further assistance is necessary.

Senator **Kasten**. The problem, as you understand, at the same time we take the dollars away from Cyprus we are going up by I think $50 million in Turkey. Cyprus is important to Greece, and it is looked at as though we are out of balance there. I think that there are some political questions here, as well as some questions as to how that refugee program works, and what kind of moneys are to be used.

I think it is important that as we work to try to strengthen certain elements in Turkey that we do not appear as if we are abandoning Greece or the problem we have with Cyprus.

I do not know if you want to comment on that, but that is essentially the problem that we have.

Mrs. **Ford**. I would like to ask Mr. Johnson if he would comment on it.

Senator **Kasten**. Would you identify yourself?

Mr. **Johnson**. Charles Johnson, Director of the Office of Development Planning for the Near East Bureau.

With respect to Turkey, and on the economic side, the total amount of funds that were requested in the program for fiscal year 1982 was $350 million, of which $300 million is ESF funding and $50 million is Eximbank financing.

For fiscal year 1983 the request is $350 million in ESF and no request for Eximbank financing. Thus, from an administration point of view, the level remains the same at $350 million, even though it is broken out a little differently.

Senator **Kasten**. But as you know, there is no such thing. That might be what the administration would dream with its magic wand, but there is no such thing as a request coming to us for *x* number of dollars and Eximbank funds going to a particular region.

Mr. **Johnson**. Yes, I realize that.

### LEBANON

Senator **Kasten**. For all practical purposes, Lebanon as a country hardly exists. It is occupied by Syria and controlled in part by the PLO and controlled in part by the Christian Lebanese, and it is basically in disarray.

Given those facts, how do you hope that any program in Lebanon will be more than simply wasted money at this time?

Mrs. **Ford**. Senator——

Senator **Kasten**. Particularly with regard to the PLO?

Mrs. **Ford**. I was able to visit our mission in Lebanon early this year, as I had been able to visit a number of our missions, and it is a small but effective program. It is effective because of the diligence and emphasis provided this program through the private voluntary organizations in Lebanon. They have functioned effectively in a war torn and rather difficult environment.

It has been impressive to see how effectively they have been able to use our funds there. I would say that with the support of the PVO's and the efforts by our AID Mission in Lebanon, that if we can continue to develop projects such as credit cooperatives, or the home for the aged, or the technical training sponsored through the YMCA, we will continue to have an effective program.

We would like to be able to continue those efforts because they have been helpful.

### MOROCCO

Senator **Kasten**. We have received a number of indications of Morocco's increasing problems. At the same time there is more and more discussion here and in the press about that increasing need for the United States to assure that that country's stability remains for our own interests.

Why under these circumstances then, does your program not reflect more of an increase for that country? Public Law 480 is actually below last year's, and it looks as if we do not have an increase or at least our political concern is not reflected in the request for 1983, especially for Public Law 480.

Mrs. **Ford**. As mentioned in the original statement, our request for development assistance funds is quite nominal with regard to the overall request in our budget. I believe the request for Morocco is about $13,500,000. Morocco does have a number of problems. Our program there is primarily in agriculture.

We need, and we are requesting and expect, the support of the Moroccan Government in terms of addressing their problems, their economic problems and concerns.

Our request we have made with an eye to the amount of funds that we can expect to use appropriately and effectively to develop the program priorities and emphases that have been identified by the Moroccan Government and through our own assessment with them.

To that end we have identified the agricultural sector, and we feel that this will be the amount of money most effectively used in that program.

### JORDAN

Senator **Kasten**. In the Mideast, we are asking for Jordan, is it $20 million total?

Mrs. **Ford**. Yes.

Senator **Kasten**. Have we indicated to them that, I wouldn't say as a condition, but maybe that we feel very strongly that as we increase our aid that we very much want to start to rely on their cooperation overall?

I know they have helped us in Lebanon at different times, but are we trying to get them to join the peace process and work more strongly in terms of the overall peace process there?

Mrs. **Ford**. Our aid levels in Jordan have been reached and identified on the basis of what we assess the development needs of the country to be, primarily in the water sector.

Jordan, as you are aware, has been a very effective recipient of AID funds and has used them efficiently over I believe some 30 or 31 years.

In a recent visit to Amman and other parts of Jordan I had an opportunity to see the effects of our programs. The Jordan Valley Authority for one, is very impressive.

We have seen that they have used our funds in terms of accomplishing specific development objectives. I have not had any specific conversations with the Jordanians about the relationship of development projects to their political objectives.

My counterparts in the State Department are continually looking for opportunities to engage Jordan in the peace process.

Senator **Kasten**. I believe that Jordan, and to a lesser degree Saudi Arabia, really are the keys to the next step and for them to start to work with Egypt. We don't have to call the process Camp David, but we have to keep this process going. I think it is important that the Jordanians and the Saudis understand that, and we want to work with them on as many kinds of bilateral tracks as we can.

Mrs. **Ford**. I agree with you. We want to continue to be supportive of our friends and to reinforce those relationships.

Senator **Kasten**. Thank you very much.

## SUBMITTED QUESTIONS

There are some additional questions that we have which we will submit to you in writing and you can get back to us. I assume there are some questions from the other members of the subcommittee who were unable to be here. Thank you for your testimony and your response to the questions. We look forward to working with you.

Mrs. FORD. Thank you very much. I will respond to those for the record as soon as we have them.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### OTHER DONOR ASSISTANCE

SENATOR KASTEN: Can you give the committee a run-down of what type of foreign assistance and how much Egypt is receiving from sources other than the United States -- both bilateral and multilateral?

MRS. FORD: Egypt is receiving over $750 million in assistance from international organizations and countries other than the United States. World Bank commitments amount to between $300 and $400 million a year. Japanese aid runs about half this level. The European Investment Bank and the EEC have co- financed projects with other donors in the power and infra-structure sectors. Other bilateral donors include West Germany, the United Kingdom, France, the Netherlands, Canada, Austria, and Italy. The UNDP has a program of technical assistance.

### CYPRUS DEVELOPMENTS

Senator Kasten: What is your understanding of the current situation in Cyprus and do you think a solution to the Turkish occupation of Cyprus lies in the near future?

Mrs. Ford: Our understanding of the current situation in Cyprus is one of outstanding economic progress since the events of 1974 especially on the Greek side. As far as a "solution" is concerned, we join our State colleagues in the belief that this problem is best left as a subject of intercommunal negotiations.

### TRADE FINANCING FACILITY

Senator Kasten: Please tell the Committee more about the Trade Financing Facility.

Mrs. Ford: The Trade Financing Facility will encourage U.S. competitiveness in the Egyptian market. In cases where the lowest responsive international competitive bid has been submitted by a U.S. company, grant funds from the Trade Financing Facility can be made available to Egyptian public sector importers to equalize the concessional financing terms offered by non-U.S. bidders. The U.S. business community has been very supportive of the Trade Financing Facility since it serves as an incentive for more U.S. companies to compete in Egypt with non-U.S. suppliers who might have access to subsidized credit.

### ALEXANDRIA SEWERAGE

Senator Kasten: What is the status of the major sanitation sewer project in Alexandria?

Mrs. Ford: Until recently it had not been decided how to dispose of the waste i.e. whether to use sea disposal or to dispose waste on land. The Government of Egypt was most interested in the land disposal option so the waste water from the system could be used in conjunction with the Government of Egypt's land reclamation program in areas near Alexandria. A U.S. engineering firm made a thorough assessment of the two methods and concluded that the cost of a system based on land disposal would far exceed the costs for a sea disposal system. Consequently, the Government of Egypt has informally agreed to proceed with the designs for a sea disposal system. In the meantime, the engineering for improvements in pumping stations, collector systems and treatment facilities has progressed very well. Also, the rehabilitation work being carried out under a separate AID financed project has been proceeding most satisfactorily.

## AID PROJECTS IN PORTUGAL

Senator Kasten: Would you be more specific about what the on-going projects are in Portugal?

Mrs. Ford: The attached list provides a brief summary of on-going projects in Portugal. The last project funds for the Azores were obligated in FY 1981. No further project funds have been requested, although $20 million of ESF program funds are being requested to provide general budgeting support for the economic and social development of the Azores.

## AID STAFF IN PORTUGAL

Senator Kasten: Do we have an AID Mission in Portugal? If so, how many people and where it is located?

Mrs. Ford: There is a small USAID Mission in Lisbon consisting of five U.S. direct-hire employees (including one secretary) and an eleven member local staff including one member permanently assigned to the Azores.

## PORTUGAL: STATUS OF MAJOR PROJECTS

1. School Construction II

   Of the 23 elementary and secondary schools, under the second school construction project, 11 are completed and six more are nearly complete or awaiting final electrical connections. Construction on three schools in the Azores is behind schedule and the Director General of School Facilities has been notified that some funds may be deobligated if these schools are not completed and if transformer units are not installed.

2. Basic Sanitation II

   Under this loan sanitary water and sewerage collection systems are being constructed in rural areas of Portugal. Of the 31 subprojects under the second loan, nine are completed and an additional 10 are nearing completion. The Mission is working with the government to accelerate work. Although all funds are disbursed or deobligated ($1,108,952) under the first loan Mission personnel will continue to monitor construction progress and visit subproject sites until all systems are completed and in operation.

3. Health Sector Support

Fourteen health centers are being financed in areas of Portugal without easy access to primary health care services as well as a nursing school in the Azores. Eleven health care centers are virtually complete and

will be staffed by the project completion date of March 31, 1982. The nursing school was inaugurated in January of this year.

4. Rural Vocational Education

Four institutes are being assisted: the University of the Azores (Agriculture, Fisheries, and Food Technology), the University of Vila Real (Agriculture), the University Institute of Evora (Agriculture, Food Technology, Mining), and the Polytechnical Institute of Covilha (Agriculture, Textiles, Small Business Administration and Food Technology). Construction and renovation work is complete at Vila Real and well advanced at Covilha and Evora though some funds may be deobligated if final work is not completed before the PACD. The work in the Azores is lagging, especially construction of a livestock complex.

Working through a procurement agent, laboratory and teaching euqipment is being purchased in the United States. The Mission is considering a request to extend the delive period by six months as only 60% of the equipment has been ordered, 35% shipped and 25% delivered to the universities.

Grant funds under TA Grant 0001 are being used for a multi-year contract with Purdue University to provide technical assistance in curriculum planning, staff development, training in the United States and procurement of demonstration equipment for the three mainland institutions. After a lengthy start up period, on the whole the Portuguese institutions have been very pleased with the caliber of assistance.

5. Agriculture Production Program

A PASA was signed with the U.S. Department of Agriculture to assist the Ministry of Agriculture and Fisheries with a comprehensive program t improve soil fertility and forage production During the first year teams have worked with Portuguese leaders to develop regional plans and to review long term assistance plans in limestone production and distribution, farm systems research, extension service and a management plan to improve sheep and goat production.

6. Azores Rehabilitation and Reconstruction

1980 Grant

All funds were disbursed in a program to reimburse the Azorean Fund for Assistance and Reconstruction for mutually-agreed expenditures related to relief, rehabilitation and reconstruction costs and procurement of prefabricated units for temporary housing, commercial spaces and offices.

1981 Grant

To be used to reimburse the Regional Government for 80% of the construction cost of a 255 unit low-cost housing development project.

7. Housing Construction I & II

The U.S. provided partial financing for over 7,000 housing units throughout Portugal. Although all funds have been disbursed under Loans and HIGs, AID continues to monitor residual problems, many of which deal with clean-up and landscaping.

8. Technical Consultants & Training

Since inception in 1975 this grant has been used to fund participants for short and long term training in the United States and to provide consultant services for a wide range of development programs of high priority interest to the Government of Portugal. Almost 70% of the funds have been subobligated and another 20% has been reserved for second phases of ongoing activities. This leaves less than 10% to be programmed over the remaining three years of the grant and there are already current plans under discussion which would fully utilize this amount. Subactivities supported by this grant include: a contract with Purdue University to provide technical assistance to three polytechnical institutions, a training program on Agricultural Credit Policies and Credit Administration, assistance to improve health statistics, development of an emergency medical service program, support to the New University of Lisbon to improve their business administration department, training of trainers in management and many other small studies requested by various Ministries and the Regional Government of the Azores.

## ESF REQUEST FOR TURKEY

Senator Kasten: In your statement you say that Turkey's performance economically in 1980 and 1981 "provides strong evidence that the new policies have taken hold."

Why then are you asking for an increase in assistance?

Mrs. Ford: The Administration's request for $350 million in ESF will make it possible for the U.S. to pledge the same amount this year as it did in last year's OECD Consortium for Turkey. In 1981, the U.S. pledge included $300 million in ESF from FY 1982 appropriations and $50 million in Export-Import Bank guarantees. A substantial U.S. pledge will encourage other donors to provide the assistance which Turkey needs to maintain the momentum towards self-sustaining economic growth.

Although economic conditions in Turkey have improved dramatically, a considerable level of assistance is still needed since

-- Turkey has not yet fully recovered from the severe economic crisis of the late 1970s,

-- foreign investors and commercial lenders are still reticent about increasing their activities in Turkey,

-- Turkey's international reserves remain rather low.

We anticipate that increasingly Turkey will be able to finance its foreign exchange requirements from exports of goods and services and capital inflows on commercial terms. However, in the short term, concessional resources are still needed, and if it appears that they are drying up prematurely, increases in capital inflows on commercial terms may be slow to materialize.

## TERMS OF TURKISH LOAN PROGRAM

Senator Kasten: The terms for the Turkish loan program appear to be less liberal than other countries which seemingly can better afford it. Why?

Mrs. Ford: Our proposed FY 1983 program calls for a $250 million cash grant and a $100 million loan repayable over 20 years, with a five-year grace period on repayment of principal, and interest at five percent. These are highly concessional terms, fully appropriate to Turkey's economic circumstances. Total debt service attributable to the FY 1983 ESF program will be $5 million a year during the five-year grace period. This is a tiny portion of Turkey's total debt service obligation and will not create any debt management difficulties for Turkey.

## WEST BANK AND GAZA: IMPLEMENTATION RECORD

Senator Kasten: You are requesting additional funds for programs and projects on the West Bank and the Gaza Strip. Have the programs we have funded in those areas through voluntary agencies, in fact, gone forward, or are they being held up by the Israeli Government?

If the answer is yes, be specific.

Mrs. Ford: The majority of the projects which we have funded since the program began in fiscal year 1975 have been carried out as planned. Cumulative expenditures since FY 1975 have been approximately $15.5 million, roughly three-quarters of the $21.1 million in U.S. assistance funds obligated. These funds have supported health education services for hundreds of mothers and children in the West Bank and Gaza, scholarship programs for undergraduates at three West Bank universities, advanced training of approximately 125 university faculty members at U.S. institutions, approximately 35 small self-help projects in land reclamation, feed production and marketing; and assistance to community groups for construction of access roads, community centers, clinics, schools, etc.

Despite these successes, the relationship between AID-supported private voluntary organizations (PVOs) and the Government of Israel is not a smooth one. The most persistent problem is the delays which some of the PVOs encounter when they seek clearance from the Israeli authorities to implement their projects. Consistent with the people-to-people nature of the PVO programs in the West Bank and Gaza, the voluntary agencies have considerable latitude to deal with implementation problems as they see fit. U.S. Embassy officials do, however, discuss PVO problems with their Israeli counterparts in instances in which problems affect several of the PVOs.

## MAQARIN DAM

Senator Kasten: Mrs. Ford, your statement mentions that Jordan's priority development problem is water. Yet there are no requests for the Maqarin Dam, which would significantly, if not completely, alleviate Jordan's water problem, and as far as we know from our recent visit, the Maqarin Dam proposal seems hopelessly stalled.

What are you specifically doing to try to get this matter back on track?

What can we expect you to be doing in the very near future whether it be with Israel or Jordan on this?

Mrs. Ford: The proposed Maqarin Dam would indeed help alleviate Jordan's water problems. Given the serious riparian issues involving Jordan, Syria, and Israel, and the difficult political relationships between these countries, at this time it doesn't look at this time like this Dam can be built in the absence of some sort of political settlement or at least easing of tensions in the region. Accordingly, we did not request funds for the Maqarin Dam this year. When the politics of the region are such to permit construction of this Dam, we will expect to come back to the Congress with a funding request.

## ESF TERMS FOR ISRAEL

Senator Kasten: For Israel's Economic Support Fund, you are requesting that only two-thirds of it be in grant form.

Hasn't the Israel Economic Support Fund money been 100 percent grant for the last two years?

Mrs. Ford: Yes, it has.

Senator Kasten: Why are you recommending this change?

Mrs. Ford: From the Administration's perspective, it does not represent a change. This and previous Administrations have proposed a two-thirds grant, one-third loan split consistently since fiscal year 1976. Our proposed loan terms are highly concessional and will not therefore complicate Israel's external financial position.

## WATER AND SANITATION

SENATOR KASTEN: You mentioned one of the visible results of the AID program urban water and sanitation systems.

Which ones are you talking about?

MRS. FORD: One chronic health hazard in Egypt has been standing pools of sewage in many urban streets. This is true for both unsewered areas and areas with overtaxed, leaking and obstructed sewers. AID projects are helping to reduce the occurrence of such pools and will ultimately eliminate them.

For example, flooding in the unsewered Ras El Soda section of Alexandria has been so bad on occasion that sewage and water combined were knee deep throughout the area. Initial drainage improvements financed under the Alexandria Sewage project, 263-0089, have dried up the streets. In Cairo, sewage overflows are decreasing thanks to the inspection and clean up of over six miles of sewers, a first step in the rehabilitation of the sewerage system financed by Cairo Sewerage, 263-0091. It was discovered that 90 percent of the pipes were clogged with logs, garbage, sand and congealed cooking oil.

Other project components which are highly visible include the renovation and installation of about 600 public water taps in Cairo's poorer neighborhoods (financed from a local fund) and the large-scale installation of water pipe in the war-ravaged Suez Canal cities of Port Said, Ismailia and Suez (financed by Canal Cities Water and Sewage System, 263-0048).

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### MORE FLEXIBLE FORMS OF ASSISTANCE

SENATOR INOUYE: Several Egyptian officials have spoken to me about the problems they have encountered with the tying of U.S. assistance to specific projects. Senator Kasten has told me that this issue was raised on several occasions during his recent visit to Egypt.

President Mubarak has, himself, expressed the desire for greater flexibility in U.S. assistance.

What are your thoughts on this matter? Should the United States provide a greater portion of its assistance to Egypt in the form of a cash transfer?

Would it not strengthen President Mubarak's hand, if he could direct the allocation of assistance rather than having it tied to specific projects by the Agency?

Is it not possible to find some middle ground between Egypt's desire for a cash transfer and the Agency's desire to maintain control through project assistance? Could we not provide assistance to economic sectors such as agriculture or industry?

MRS. FORD: The Administration has agreed to shift to the more flexible forms of assistance sought by President Mubarak during his February visit to support Egypt's efforts to institute reforms in the economy. It should be noted, however, that over half of our total assistance to Egypt already is provided in flexible, quick disbursing forms, i.e., the Commodity Import Program and PL 480 Title I.

This fiscal year we are moving, where appropriate, to sectoral grants for new obligations. For example, rather than providing additional funding in FY 1982 to individual projects within our decentralization portfolio, eg. Basic Village Services 263-0103, or Decentralization Support Fund 263-0143, we are clustering all such projects in a single program called the Decentralization Sector Support Program. This not only responds to Egyptian concerns, but will also provide a forum in which the larger policy issues related to decentralization can be pursued.

Additional sectoral grants are being developed for assistance in energy and production credit. We also are considering broader sector activities or budget financing in agriculture and health in support of actions that the Egyptian Government may take in response to assessments of these sectors recently undertaken.

## NEED FOR SACRIFICES

SENATOR INOUYE: In your prepared remarks, you have noted that President Mubarak has "inherited an economy beset with significant problems." You have also noted that sacrifices may be required to reach the goal of increasing investment and productivity in the Egyptian economy.

What sort of sacrifices are likely to be required?

Will these sacrifices not cause an erosion of political support for President Mubarak and, in turn, the United States?

MRS. FORD: In recent years consumption has increased very rapidly in Egypt. Several of the external sources for financing this consumption growth -- petroleum exports, workers' remittances, Suez Canal earnings -- are now growing slowly, if at all. This means that the Egyptian population cannot look forward to continuation of past rates of consumption growth, if investment needed for future growth is to be made. It does not mean that present standards of living necessarily need be reduced, but expectations of rapid near-term expansion do have to be dampened. President Mubarak has been actively engaged in educating the Egyptian population about the realities of the country's economic situation and its implications. We are confident that Egypt's people will understand and accept that message including reasonable sacrifices that may be asked of them. The prices of petroleum products, water, electricity, telephones, rent,and some food commodities have not changed in years for many people. (For example, the price of fuel oil has not changed for 25 years and now equals only about 6 percent of the international price.) Therefore, some adjustment would appear to be reasonable.

## FASTER DISBURSING FORMS OF ASSISTANCE

SENATOR INOUYE: The Administration has provided Egypt assurances that the U.S. will do its best to "provide economic assistance in ways which would be responsive to Egyptian needs and which would also promise more expeditious implementation."

What changes in the pattern of U.S. assistance to Egypt are required to meet this goal?

How can we make U.S. assistance more responsive to Egyptian needs?

How will you accelerate implementation of AID-funded projects?

MRS. FORD: We are in the process of implementing several changes in the pattern of U.S. assistance to Egypt which respond to Egyptian desires for a more flexible and rapidly disbursing assistance program. In fiscal year 1982, we have agreed to use to a greater degree incremental funding, which brings obligations more in line with expected disbursements and contracting requirements for a particular fiscal year, and sectoral assistance, where all projects with closely related goals, e.g. support of decentralization, are clustered into a single program. We will continue the Commodity Import Program which already is seen by the Egyptians as a flexible form of assistance.

We recommend that the committee consider enactment, particularly for Egypt, of the President's request that ESF funds for FY 1983 be made available on a no year basis, as set forth in Page I-D5 of the Appendix to the fiscal year 1983 budget. Such "no year" authority would permit AID to deobligate slow moving projects funded with no year money in future years with the assurance that such funds would be available for reobligation for similar projects.

## SHIFTS AWAY FROM CAPITAL AND ENERGY-INTENSIVE INDUSTRY

SENATOR INOUYE: What is AID doing to encourage a shift in Egypt's industrial and agricultural investment policies from capital and energy-intensive industries to export-oriented, labor-intensive industries?

MRS. FORD: A shift away from capital and energy-intensive industries to more labor-intensive industries is likely to occur only to the extent price signals reflect true values and scarcities. AID is helping to assess and illuminate price distortions and their effects as well as ways that a process can be initiated to correct the distortions. For example, in April a Presidential Mission visited Egypt and has prepared a report documenting what has happened in the agricultural sector under present policies. We are also prepared to help finance the adjustment process in this and other sectors.

## IMPORT SUBSTITUTION

SENATOR INOUYE: Is it not equally important for Egypt to concentrate on import-substitution activities such as increased food production?

MRS. FORD: Export and import-substitution activities are both important. In fact, in a number of cases -- including some food commodities -- successful import-substitution has the potential to expand into an export activity. We recognize that non-economic considerations may bring about government efforts to channel investment into particular sectors. However, in most cases, whether investment goes into import-substitution or export activity should be determined by comparative advantage. Therefore, it is important that prices be determined by market forces since they are an accurate indicator of comparative advantage.

## MAINTAINING STANDARDS OF LIVING OF THE POOR

SENATOR INOUYE: You say that Egypt can carry out necessary economic reforms "while at the same time maintaining Egypt's commitment to protect and improve the standards of living of its poorer citizens."

How can this be accomplished?

Is it not true that, at least in the short term, the standard of living of poorer citizens will be lowered as subsidies are reduced?

MRS. FORD: Much of the budgetary burden of Egypt's subsidy program is due to the fact that in many cases below-market prices, whether for food, petroleum products, or public utilities, are available to all regardless of income. Large savings would be possible simply by more effective targetting of subsidies on the poor. There are a variety of mechanisms for this -- ration cards or food coupons (for which AID has provided technical advice); limiting subsidies to items or qualities of goods that are used almost exclusively by the poor (for example, kerosene); restricting sales outlets for subsidized goods to low income neighborhoods, etc. In those cases where it may be desirable to raise prices even for the poor so that price signals can assure optimum allocation of resources, it may be possible, and less costly, to offset the impact on the poor through increased wages or income supplements.

## AGRICULTURAL PRICES

SENATOR INOUYE: Is it not true that agricultural pricing policies have suppressed farm production? Is it not also true that more realistic prices for farm goods will reduce the living standards of the urban populace?

How will Egypt resolve this dilemma?

MRS. FORD: There is little doubt that higher producer prices, some of which are markedly below world prices, would enable farmers to adopt technology that would increase yields of some crops at least 50 percent. In addition, producer prices that better reflect the world market would shift the pattern of agricultural production into those areas where Egypt has the greater comparative advantage and into higher value crops.

In a free market system, higher farm prices would translate into higher prices for the urban consumer. However, Egypt's present price control/subsidy system prevents this from happening, so that the impact of higher farm prices is on the budget rather than on the consumer. It is true that over time present highly subsidized consumer prices need to be raised in order to reduce budget costs and discourage excessive consumption. Ideally, such price increases would be staged to correspond to increases in family incomes so that living standards are not reduced, but this may not always be feasible.

## FOREIGN EXCHANGE EARNINGS

SENATOR INOUYE: Egypt has experienced a decline in oil export revenues, tourism, and worker remittances from abroad.

Do you know the extent of this decline in foreign exchange earnings?

Is it reasonable to expect a reversal of this trend in the near term?

MRS. FORD: There was a slight decrease in overall foreign exchange earnings from calendar year 1980 to 1981. The largest decline was suffered in workers' remittances, which went down by $500 million from $2.7 billion and tourism by almost $200 million from $600 million. Oil export revenues increased slightly by $255 million to $3.25 billion; the increase however, was much less in percentage terms than in previous years.

It is unlikely that Egyptian foreign exchange earnings will increase in the future as they have in the past. Oil revenues will be held down by the soft international market, only gradual increases in domestic production and continuing strong growth of domestic consumption. We do however, believe that through the adoption of appropriate economic policies, such as interest and foreign exchange rates, the Egyptian economy could benefit by a substantial expansion in workers' remittances and other earnings from non-oil exports.

## WORKER REMITTANCES

SENATOR INOUYE: Does the decline in worker's remittances reflect a lack of faith in the Egyptian economy?

MRS. FORD: We have no evidence that fluctuations in workers' remittances are a reflection of changes in confidence in the Egyptian economy. President's Sadat assassination may have affected the remittance level temporarily. However, fluctuations in remittance flows are largely explained by higher investment returns available abroad and by expectations about exchange rate movements. In addition, unrecorded remittances come into Egypt outside official channels. It is not known whether the level of these unrecorded movements has moved in tandem with the official remittance level. Therefore, the official figure may not be an accurate indicator of the size (or even the direction) of movement of total remittances.

## WORKERS' REMITTANCES TO TURKEY AND EGYPT

Senator Inouye: You have noted that there was a strong growth in remittances from Turkish workers abroad in 1981.

Why has Turkey seen an increase in worker remittances while those of Egypt have declined?

Mrs. Ford: Actually, remittances to both Turkey and Egypt rose in 1981. Turkish workers remitted approximately $2.5 billion in 1981 compared with $2.1 billion in 1980. The comparable statistics for Egypt were $3.0 billion and $2.7 billion. Remittances to Turkey continued to grow in response to maintenance of favorable foreign exchange rates and remunerative interest rates. Moreover, the number of Turkish workers in Middle Eastern countries grew. The increase in remittances to Egypt is probably due to an increase in the number of Egyptians working abroad.

## POLITICAL STRAINS OF ECONOMIC POLICY ADJUSTMENT

SENATOR INOUYE: It appears to me from your description of economic conditions in Egypt and the reforms which are required that President Mubarak has only bad news for the Egyptian people.

How does AID propose to assist Egypt make the transition to a rationally structured economy?

What measures will the Agency take to contribute to political stability in this transition period?

MRS. FORD: We recognize that the adjustments required in the Egyptian economy will produce some strains and dislocation. For this reason, we agree with Egypt's leaders that the changes should be carefully planned and effected gradually. We stand ready to provide technical assistance in the analysis and implementation of changes as requested by the Egyptians. In addition, we have offered to restructure our program to provide support -- including, where appropriate, sectoral assistance -- to assist in the implementation of significant policy reforms.

## PROJECT VISIBILITY

SENATOR INOUYE: Some people have suggested that the United States should support highly visible projects, which can be rapidly implemented, to help maintain the allegiance of the Egyptian people to Mubarak during the time it takes to put the economy on a sound footing. Do you agree?

Is AID opposed to funding of turn-key projects, such as hospitals? Why?

Would such projects not provide a demonstration of support for the Egyptian people -- a demonstration which brings immediate recognition of our assistance?

MRS. FORD: As a general rule, AID believes that construction of hospitals is not a cost-effective way to address the health problems of developing countries. We are not opposed to funding turn-key or other types of large construction projects, however. In fact, we have funded a large number of major construction projects in Egypt -- power generators, water and sewer systems, telecommunications, grain silos, cement plants, and many others. Although these projects do provide a recognizable demonstration of support for the Egyptian people, the projects must first be justified in terms of economic and developmental criteria. Moreover, such projects take a long time to develop and execute. The delay before there is a visible result sometimes can actually give rise to public criticism, rather than good will. There are other -- and in some ways better -- means to provide quick, tangible evidence of U.S. support for the Egyptian people. One of these is the decentralization program, through which large numbers of people in both rural and urban areas are being directly reached with activities they themselves select and that are clearly identified as AID supported.

## ESF TERMS FOR ISRAEL

Senator Inouye: In each of the past two fiscal years, the Congress has insisted that all Economic Support Fund assistance to Israel be provided in the form of a grant.

Why, then, has the Administration again proposed that only two-thirds of fiscal year 1983 assistance be provided as a grant?

Mrs. Ford: This and previous Administrations have proposed a two-thirds grant, one-third loan split consistently since fiscal year 1976. Our proposed loan terms are highly concessional and will not therefore complicate Israel's external financial position.

Senator Inouye: Does the Administration believe that economic conditions in Israel will so significantly improve this year that the terms of assistance should be made harder?

Mrs. Ford: No. It is unlikely that Israel's external financing requirement, that is to say the deficit in the non-defense goods and services account plus payments for defense imports and debt repayment, will be less in 1983 than it was in 1981. It could be greater if world economic and financial conditions change in ways which are unfavorable to Israel, or if the Government of Israel is unable to restrain domestic demand sufficiently. However, I think it important to recall that during the proposed 10 year grace period on ESF loans to Israel, the total debt service payments attributable to a $260 million loan in FY 1983 would be only $5.2 million a year. That is about 0.15 percent of Israel's debt service obligations for each of the next few years. For this reason, it was our view that the traditional loan-grant split would cause Israel no financial hardship.

## COST OF OIL ATTRIBUTABLE TO WITHDRAWAL FROM THE SINAI

Senator Inouye: You noted that Egypt experienced a decline in oil revenues in 1981. What do you estimate Israel pays, on an annual basis, in increased energy costs as a result of the return of Abu Rudeis to Egypt?

Mrs. Ford: Had Israel not returned the oil fields in the Sinai and the Gulf of Suez to Egypt in 1975 and 1979 its foreign exchange outlays for oil would probably have been about $1 - 1.5 billion lower than they actually were in 1981.

## ECONOMIC SUPPORT FUND DEBT

Senator Inouye: This year, Israel will repay the United States $816,195,000 in principal and interest due on prior Foreign Military Sales credits. Next year, it will repay $768,272,000.

What amount will Israel repay in fiscal year 1982 for principal and interest due on prior Economic Support Fund loans? How much will be due in fiscal year 1983?

Mrs. Ford: Interest on Economic Support Fund loans will be approximately $26 million both this year and next. The 10-year grace period on Economic Support Fund loans to Israel has not as yet run its course. Therefore, there will be no principal repayments. However, in FY 1982 Israel will owe about $9.2 million in principal repayments for some old A.I.D. and predecessor agency loans. The comparable figure for FY 1983 is $6.4 million.

## ESF TERMS FOR ISRAEL

Senator Inouye: So, the combined amount of repayments on FMS credits and ESF loans are (in excess of/very close to) the Economic Support Fund assistance the Administration proposes for fiscal year 1983.

Under these circumstances, what justification does the Administration have for seeking to impose more restrictive terms on assistance to Israel?

Mrs. Ford: The ESF terms which the Administration proposes are highly concessional. They will not create debt management problems for Israel. I should add that both the level and terms of our ESF assistance for Israel are related to that country's balance of payments requirements. Debt service is only one element in the balance of payments.

## JORDAN: RATIONALE FOR ASSISTANCE

Senator Inouye: Mrs. Ford, Jordan, as you have noted, is a "middle income" country. It has not participated in the Camp David framework. Therefore, I must ask what the rationale is for providing $20 million in ESF assistance to Jordan?

If our assistance is provided for what are essentially political reasons, how can we compete with the $1.2 billion provided annually to Jordan under the Baghdad Agreements?

Mrs. Ford: Although Jordan has not participated directly in the Camp David process thus far, it is a Middle Eastern Arab state that has consistently advocated a negotiated settlement to Arab-Israeli disputes. King Hussein and his Government are a major force for modernization and stability in the region, and the King in the past has been willing to take risks in pursuit of peace. A.I.D. must provide an assistance level sufficient to show the Jordanians that we are willing to work together with them in achieving a workable peace settlement. We will continue to take every opportunity to encourage Jordan to promote a meaningful peace in the Middle East.

Our A.I.D. projects are designed to encourage Jordan's economic growth with equity based on a Western-oriented, free-market model. Our bilateral programs have concentrated on urban water and wastewater projects.

In the future our A.I.D. efforts are being refocussed to help Jordanian institutions improve their own capability to serve the Jordanian people.

In answer to the second part of your question, it is true that our U.S. bilateral aid represents only 3% of the total concessional aid being provided to Jordan; while Arab donors contribute up to 84% of the total foreign receipts of the Jordanian government. However, it should be noted that most, if not all, of this Arab support is for recurrent, non-development, budgetary support. On the other hand, our A.I.D. pogram has been focussed solely on solving development problems in close collaboration with the Jordanians for nearly 30 years and this help has been a catalyst for mobilizing Jordanian and other donor participation in priority Jordanian development efforts.

## PROPOSED AID FOR WATER AND SEWERAGE SYSTEMS IN JORDAN

Senator Inouye: Mrs. Ford, does the $17 million in assistance proposed for water and sewerage systems in Jordan have a component for the recovery of water? How will this project address Jordan's critical water shortage?

Mrs. Ford: The lack of water continues to be a major constraint in Jordan's development efforts. Over the years, A.I.D. has provided substantial resources to help the Jordanians develop adequate, safe water distribution and waste water treatment systems and to strengthen the Jordanian capability to plan, regulate and implement rational water sector policies.

In 1981 two specific efforts, the development of sewage treatment guidelines, and a water conservation workshop, were conducted to advance the understanding and knowledge base of the official agencies of Jordan so that effective reuse can be carried out. In FY 1983, A.I.D proposes to provide $17 million for three activities in the priority water sector. $15 million is proposed for two projects designed to provide additional water and sewerage services for the cities of Ma'an and Karek. Conservation including reuse is a basic consideration in the handling of the waste streams from municipal systems. Beneficial reuse of the sewage effluent of the two cities will be a basic design objective.

An additional $2 million grant would provide technical assistance to the Jordanian water authority and its subordinate organizations to help Jordanian water planners make better decisions in all aspects of water resources management, including resource investigation, development, allocation and conservation, and wastewater treatment, reuse and disposal.

## ESF TERMS: IMPLICATIONS FOR ISRAELI DEBT

Senator Inouye: If, as the Administration suggests, we require Israel to repay a portion of the assistance provided under the Economic Support Fund in fiscal year 1983, will that not negate a major purpose of the ESF--namely, to help Israel get out of debt?

Mrs. Ford: The purpose of ESF assistance is to help Israel to finance its balance of payments deficit without drawing down its foreign exchange reserves to a dangerously low level, borrowing excessively on commercial terms or slashing non-defense imports. Both the level and the terms of assistance proposed by the Administration for FY 1983 are consistent with achievement of that purpose. The small amount of interest which Israel would be obliged to pay on the loan portion of the package would not create debt management problems.

## ADDITIONAL ESF FOR LEBANON

Senator Inouye: The $8 million in Economic Support Funds proposed for Lebanon appears to be an inadequate response to Lebanon's need for assistance.

Would the Administration be prepared to request additional funding, if political conditions were to improve to the point where it could be effectively used?

Mrs. Ford: I presume from your question, you mean an improvement in security conditions as well as the establishment of an effective civilian and military Lebanese Government presence. In those circumstances, I think we would be prepared to consider within the Administration the possibility of additional assistance funds.

## EQUITABLE DISTRIBUTION OF AID

Senator Inouye: Is an effort being made to provide this assistance on an even-handed basis?

Mrs. Ford: We try to be very sensitive to ethnic and sectarian concerns, but without letting such considerations dominate our programs.

The bulk of our programs has consisted of projects for the general welfare which are not disproportionately beneficial to specific ethnic elements. For example, assistance to the government for port repairs does not have confessional overtones. The vocational training programs run by the YMCA are open to and used by all groups. As our programs are focussed on areas where needs are greatest, there is necessarily some bias in favor of those groups most directly hurt by the strife.

Nonetheless, several of our programs explicitly tend to benefit specific groups. For instance, we have provided Catholic Relief Services (CRS) with $6 million for rehabilitation financing. These funds will be disbursed to a variety of indigenous social welfare institutions encompassing eight different Muslim and Christian religious groups plus non-sectarian institutions.

## SUSPENSION OF AID ACTIVITIES IN LEBANON

Senator Inouye: Has the Agency found it necessary to suspend activities in Lebanon because of civil strife?

Mrs. Ford: No, we have not to date found it necessary to suspend our assistance activities, but the presence of military and paramilitary conflict restricts what we can do, particularly in the way of construction activities.

## SUSPENDED AID PROJECTS

Senator Inouye: What projects have been suspended?

Mrs. Ford: We have slowdowns from time to time when security conditions keep our people or our grantees from visiting sites for brief period; but no projects have been suspended.

## OMAN

Senator Inouye: The Administration is proposing $15 million in economic support fund assistance to Oman in fiscal year 1983.

What is the relationship between this funding and U.S. access to military facilities in Oman?

Mrs. Ford: During the access agreement negotiations in 1980, separate agreements providing for the establishment of a Joint Commission and a limited amount of economic aid were also negotiated. This met the Government of Oman's desire to include an economic dimension to our broadened relationship. Under these agreements, AID is providing $5 million in grant funds annually and $10 million in loan funds in FY 82 and FY 83 to support technical assistance, training and modest capital projects under the Joint Commission.

Senator Inouye: You have said Oman "faces the challenge of developing an industrial capacity and its modest agricultural and fishery potential ..."

How does U.S. assistance to increase the supply of water to the capital city of Muscat support these goals?

Mrs. Ford: Oman is an extremely arid country and is facing growing water shortages in many areas. Development of industry and agriculture will require development of new water resources. The water recharge project will increase the supply of water to the capital area by capturing runoff that would otherwise flow into the sea. This will make available water for industrial municipal, and agriculture uses in that region. This project is a pilot activity and if successful, could be replicated in the agricultural villages along the coastline.

## ASSISTANCE FOR PORTUGAL

Senator Inouye: The $20 million request for assistance to Portugal represents the final tranche of assistance stemming from 1979 agreements between the U.S. and Portugal relating to Lajes Air Base in the Azores. Is additional assistance likely to be required in fiscal year 1984?

Mrs. Ford: Preliminary discussions have begun on the renewal of agreements between the U.S. and Portugal relating to the Lajes Air Base. It is anticipated that additional assistance will be made available by the United States in FY 1984 although the type and amount of this assistance has not been determined.

Senator Inouye: When will the agreement have to be renewed?

Mrs. Ford: The current agreement with Portugal expires in May, 1983. Negotiations are now underway for the renewal of this agreement.

Senator Inouye: You have noted the deterioration in Portugal's balance of payments, and you have stated that "financing the deficit should not pose an immediate problem given Portugal's credit standing, substantial gold reserves and access to IMF resources." Is Portugal likely to request additional assistance to help finance this deficit?

Mrs. Ford: We do not expect to be asked for additional assistance to finance Portugal's balance of payments deficit although assistance may be provided in the context of a renewal of the base agreement between the U.S. and Portugal.

## POLAND - HUMANITARIAN ASSISTANCE

Senator Inouye: Why does Poland appear in the Congressional Presentation for the Near East Region program?

Mrs. Ford: The Near East Bureau is responsible for all AID activities in Europe, including Poland. The $5 million ESF appropriation for Poland in FY 1982 represents the Congress' response to the humanitarian needs resulting from the crisis situation in Poland. It appears as a terminating program in the Near East Region section of the FY 1983 Congressional Presentation. No additional assistance for Poland is contemplated.

Senator Inouye: In FY 1982, $5.0 million in emergency assistance was provided to Poland. How were these funds utilized?

Mrs. Ford: AID is now taking steps to obligate the $5.0 million in ESF to support the activities of a U.S. private voluntary agency, Project Hope, in Poland. Project Hope will receive a grant to purchase much-needed disposable medical supplies for obstetric and pediatric hospitals in Poland, including the American Children's Hospital in Krakow.

Senator Inouye: Were these funds provided to Polish Government authorities?

Mrs. Ford: These funds will be prov ided directly to Project Hope. Project Hope has an agreement with the Polish Government whereby it will be able to distribute medical supplies directly to designated needy hospitals without government interference. Hope also has obtained agreement of the Catholic Church in Poland to assist in monitoring delivery of the medical supplies to ensure they reach those for whom they are intended.

Senator Inouye: Can you assure the committee that the funds were used as intended? Has their use been audited by AID's auditor general?

Mrs. Ford: As I said, above, these funds haven't been obligated yet. AID will, of course, monitor Project Hope's distribution of medical supplies in Poland and take every precaution to insure that the funds will be used as intended.

## FINANCING TURKEY'S CURRENT ACCOUNT DEFICIT

Senator Inouye: The Administration is proposing $350 million in Economic Support Fund assistance to Turkey in fiscal year 1983. I would note that Turkey's foreign debts were rescheduled in 1980 to keep it from defaulting, and I would also note that Turkey's current account deficit in 1981 was $2.1 billion.

How is Turkey financing its current account deficit?

Mrs. Ford: Grants and credits from OECD donors, OPEC countries and the World Bank totalled about $1.6 billion. The IMF provided another $400 million. Private flows were negligible.

In addition to its current account deficit, approximately $1.3 billion in principal repayments on foreign debt came due in 1981. However, $850 million of this amount was deferred in accordance with the terms of previously agreed upon debt reschedulings.

Senator Inouye: Do you know what the deficit was in the first quarter of 1982?

Mrs. Ford: No, we don't have that information yet.

Senator Inouye: What evidence do you have to indicate improvement in the Turkish economy?

Mrs. Ford: The evidence is strong. In 1981 GNP rose by 4.4 percent in real terms after two consecutive years of decline. Declines in fixed investment and private consumption recorded in 1979 and 1980 were also reversed. At the same time, the inflation rate dropped from over 100 percent in 1980 to less than 40 percent in 1981. Turning to Turkey's external finances, the balance of payments deficit on current account was $2.3 billion in 1981, a 36 percent drop from the $3.7 billion level of 1980. This decline was achieved as a result of very strong performance by the export sector and continued growth in workers' remittances. Although capital imports declined by over $1 billion in 1981, Turkey was able to increase its non-oil imports by approximately 20 percent in volume terms.

## USE OF ESF TO REPAY FMS CREDITS

Senator Inouye: By 1984, Turkey will owe over $200 million per year for interest and premium payments on existing U.S. Foreign Military Sales credits.

Is Turkey using U.S. Economic Support Fund assistance to repay U.S. military credits? How does this contribute to recovery of the Turkish economy?

Mrs. Ford: Economic Support Fund assistance is provided to Turkey in the form of cash so that it may be readily used for any of the purposes for which Turkey requires foreign exchange, e.g. payment for imports of goods and services, and servicing of external debt. Since the funds which we provide are indistinguishable from other foreign exchange resources available to Turkey, it is not possible to indicate precisely what use is being made of our assistance. However, it is clear that, in the aggregate, foreign assistance is permitting Turkey to import a volume of goods and services consistent with a moderate level of economic growth, while at the same time meeting its foreign debt obligations.

## TURKEY'S OTHER DONORS

Senator Inouye: Are other nations contributing to the recovery of the Turkish economy?

Mrs. Ford: Yes, they are.

Senator Inouye: Who are the principal donors, and how much assistance are they providing?

Mrs. Ford: Collectively, Turkey's OECD partners are its most important source of assistance. The U.S. and West Germany are the largest contributors to the OECD led consortium. Germany pledged approximately $295 million in 1980 and $213 million in 1981 in the consortium context. Other important OECD donors are France, Italy and Japan, each of which have been pledging about $100 million a year. The most important non-OECD donors are Saudi Arabia, which committed $250 million in 1980 and a further $150 million in 1981, the World Bank, which disbursed close to $1 billion in project and program loan funds in 1981 (much of it from prior year commitments), and the IMF, which approved a three-year $1.6 billion standby arrangement in 1980.

## A.I.D.-FUNDED PROGRAMS IN THE WEST BANK AND GAZA

Senator Inouye: Israel has recently taken measures to remove certain Palestinian mayors of West Bank cities and to establish village leagues.

How have these actions affected AID-funded programs on the West Bank and in Gaza? Are U.S. private and voluntary organizations finding it difficult to continue this work through long-established Palestinian channels, or are they now being compelled to work through village leagues?

Mrs. Ford: To date, the Government of Israel has not issued any new guidelines to the U.S. private voluntary agencies (PVOs) working in the West Bank and Gaza. These agencies continue to maintain contacts with indigenous leaders in both the public and private sectors and to propose projects for A.I.D. approval and Israeli Government clearance which meet their own selection criteria.

The PVOs are, however, worried by indications which they have received from senior Israeli officials that the Government of Israel wishes the PVOs to effect ". . . closer coordination and identification with the Military Government, the Civilian Administration and/or the Village Leagues." PVO spokesmen also indicate that Israeli officials are making clear for the first time that the political orientation of applicants for assistance will determine which projects do and do not receive Government of Israel clearance.

Both A.I.D. and the PVOs are concerned that implementation of changes along these lines would serve to discredit the PVOs in the communities which they (and we) seek to serve and would compromise the non-political, people-to-people nature of the programs we fund and the private U.S. agencies which carry them out.

The PVO relations with the Israeli authorities are strained. But that is not a new phenomenon. We are watching the situation closely and, as in the past, will make appropriate representations if they are required.

## SCIENCE AND TECHNOLOGY

### STATEMENT OF DR. NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR FOR SCIENCE AND TECHNOLOGY, AGENCY FOR INTERNATIONAL DEVELOPMENT

Senator **KASTEN**. All right, Dr. Brady is our next witness.

Dr. Brady, we appreciate your being with us today, and we have a copy of your full statement. If you could summarize it briefly, the entire statement will be made a part of the record.

Dr. **BRADY**. Thank you, Senator.

I appreciate very much this opportunity to be here today and talk to you about something that I think is extremely important and an area of activity I have devoted a good deal of my own time to. That is the use of science and technology in the development process.

I have been privileged to personally see what it can do in the agricultural field and witnessed what it can do in some of the others. As you know, Mr. McPherson feels very strongly that technical aspects of what we have to offer——

Senator **KASTEN**. I am going to have to ask you to speak up There is no amplification in this room, and we have a difficult time hearing.

Dr. **BRADY**. As you know, Mr. McPherson has a personal conviction that perhaps we have not made as effective use as we should have in the past of science and technology and U.S. capabilities to help people help themselves, and to help them develop institutions that could help them to feed themselves.

He did ask me to come in to head up a modified Bureau of Science and Technology to replace the former Development Suppor Bureau and to bring in with me some very competent scientists and science administrators to work with me.

#### ACTIVITIES OF CENTRAL PROGRAM AREAS

Because the time is short let me turn directly to the activities in each of our central program areas, starting out with agriculture rural development, and nutrition.

I think you are well acquainted with the activities that the Agency has been involved in in that regard, and we are proposing $107,600,000 for our Bureau's agricultural, rural development and nutrition programs.

This Bureau also covers the focus on population planning and our primary purpose there is to provide family planning service where they are asked for, and where they can be useful. There ar approximately $120 million for this Bureau's program today.

The health programs are working to provide immediate exper technical services to the field, sponsoring field research and demonstration projects and by possibly long-term research improvin means for preventing an illness; $23 million is allocated for this. For education and human resources, $8,300,000 is requested for centrally funded programs. We are concerned there primarily with trying to help increase the efficiency of the education programs. For energy and selected development activities, including forestry and natural resources, $8 million is requested for energy, and $7 million for forestry and related activities.

## OFFICE OF SCIENCE ADVISER

In fiscal year 1981, AID established the Office of Science Adviser to assist with high research grants and to implement the programs for cooperation. This office is emphasizing U.S./LDC partnerships and private sector involvement and training for LDC science.

In addition, there is a 5-year grant to the National Academy of Sciences supporting efforts to identify underexploited technologies of potential economic value and to establish and fund networks of LDC research institutions to explore and improve those technologies.

The NAS will concentrate its subgrants for research and its capacity building activities in those areas where the Academy has experience and special expertise, and where AID has not been previously or directly involved. Such areas include grain amaranth, fast-growing nitrogen-fixing trees, biological nitrogen-fixation, agricultural pest management, and technology for epidemiological assessment.

I would like to identify four ways, Senator, as to how we are, in fact, operating.

First, is to what I term global research and development activities, exemplified by the International Agricultural Research Centers located around the world, and a former laboratory in Bangladesh, and local research activities.

Second, it is global services, such as that performed in the population area, and in the health and sciences area.

Third, what we call collaborative activities with the missions and with the regional bureaus where we have some expertise that they may not have and they have the problems, we have a joint program.

Last, we have what we call just technical back-stopping to provide technical assistance and help for our AID missions, where we design projects.

I would be pleased to try to answer any questions you might have.

[The prepared statement follows:]

# PREPARED STATEMENT OF DR. NYLE C. BRADY

SENIOR ASSISTANT ADMINISTRATOR

## SCIENCE AND TECHNOLOGY

I am Nyle C. Brady, Senior Assistant Administrator for Science and Technology of the Agency for International Development (A.I.D.). It is a pleasure to be here this afternoon. I welcome this opportunity to discuss the programs of A.I.D.'s Bureau for Science and Technology. The establishment of this Bureau, replacing the old Bureau for Development Support, was one of several steps taken by the Administrator to strengthen the role and effectiveness of science and technology in the Agency's bilateral economic assistance programs.

This emphasis on science and technology for development is hardly new. Ever since the initiation of technical assistance under the Truman administration, the U.S. has been sharing with others the experience and the practical results of our own scientific and technical endeavors. However, the priority given to S&T within our overall development assistance efforts has changed over time.

From its inception in the late 1940's with the Point IV program, U.S. aid to the developing regions stressed technical assistance. Beginning in November 1961, when the Development Loan Fund and the International Cooperation Administration were merged to form A.I.D., technical assistance began to decline in emphasis relative to capital assistance and economic/supporting assistance. In the early 1970's, moreover, when A.I.D. was concentrating on the most pressing needs of the rural poor, the U.S. was unable to place as high a priority on institution-building as it had in the 50's and 60's. At the same time, the capacity of U.S. institutions, especially U.S. universities, to contribute to technical assistance overseas also declined.

By the late 1970's, these trends led the scientific community both in this country and throughout the Third World to criticize the U.S. bilateral assistance program for failing to emphasize the role of science and technology in improving living standards in developing countries and to take full advantage of U.S. scientific capabilities in doing so. At the 1979 U. N. Conference on Science and Technology for Development in Vienna, the participants from developing regions indicated that they were placing a much higher priority than ever before on building their own institutional capacity to apply science and technology to their development problems, and they challenged the developed, aid-giving countries, similarly to redirect their development assistance programs.

It is within this context that the current A.I.D. leadership has taken several steps to reestablish a stronger and more central role for science and technology within the U.S. development assistance effort. Some of these steps are structural and procedural, involving some reorganization within the Agency and the establishment of new modes of collaboration with the U.S. university community. Other measures are substantive program changes, involving new initiatives and the expansion of earlier program activities with major S&T dimensions. In more general terms, A.I.D.'s renewed emphases on both technology transfer and institution-building require heavy scientific and technical inputs, including research and the development of new or adaptation of existing technologies.

## A.I.D. Reorganization to Emphasize S&T in Development

In June 1981, the A.I.D. Administrator announced a number of actions being taken to improve the science and technology capacity of A.I.D. As I have already noted, the first step was the establishment on June 30 of a new Bureau for Science and Technology, which he asked me to head. At the same time, the Administrator asked me to provide administrative leadership for science and technology throughout the Agency. More concretely, he asked me to explore ways in which A.I.D. could more effectively apply the Agency's science and technology capabilities to the planning and implementation of its own programs.

## Functions of the Bureau for Science and Technology

The primary role of the Bureau for Science and Technology is to supply technical expertise both to developing countries, and to A.I.D.'s own regional bureaus and country missions worldwide. In this capacity it finances experimental projects and pilot programs, develops new applications of science and technology, and promotes technology transfer among and within major regions of the world. The S&T Bureau also administers the bulk of the Agency's central research and development program, as well as most of its activities concerning the collection and dissemination of development information.

The Senior Assistant Administrator for Science and Technology is assisted by two deputies, one for Research and another for Technical Support, and by the Offices of Program, Management, Communication, and Development Information. To provide technical leadership for the Agency's work in its priority fields, we have established *four Directorates*: *Food and Agriculture*, *Energy and Natural Resources*, *Human Resources*, and *Health and Population*. Each Directorate is headed by an Agency Director whose primary responsibilities are two-fold, *i.e.*, 1) to direct and supervise the S&T Bureau's project activities, and sector staff; and 2) to provide technical leadership for the Agency programs and activities in the sector.

## Science and Technology Sector Councils

To encourage an Agency-wide focus on science and technology and on technical assistance, six S&T Sector Councils were established in Agriculture, Nutrition, Population, Health, Human Resources, and Energy and Natural Resources. These Sector Councils, with representation from regional bureaus and other central bureaus, were created in November 1981 to provide an orderly mechanism for advising the Agency and its bureaus on all science and technology matters. Each of the Councils, in its sector, is the responsible working level for:

- the identification, analysis, discussion and resolution of technical issues contained in A.I.D.'s Sector Policy Papers;
- the development of global sector strategies, including the identification, analysis, discussion and resolution of technical issues;
- assisting all bureaus in improving the technical aspects of all

elements of A.I.D.'s project planning and implementation processes; and

-- advising the Office of Personnel Management and Agency managers on all science and technology personnel matters, including workforce requirements, personnel recruitment and selection, training requirements, career development, etc.

Volume V. of the Congressional Presentation before you contains detailed descriptions of each of the Bureau's programs. Therefore, I would like to take this opportunity to provide a brief overview of our activities in each of our central program areas. I will then be glad to respond to any questions you may have.

## AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION

The major problems of the world's less developed countries are poverty and its constant companion, hunger. In recent years, the low-income countries as a whole have achieved significant gains in their own food production and, in some cases, have begun to see important income gains. Despite notable progress along these lines, however, millions of people are still left behind, their lives circumscribed by a series of interlocking problems which characterize the rural areas of the less developed countries (LDCs). These persistent problems include malnutrition, low agricultural productivity, antiquated farming methods, pervasive unemployment, low incomes, large families, and depleted natural resources.

In the face of these obstacles, A.I.D.'s strategy for reducing poverty, hunger and malnutrition in the shortest possible time is by fostering the development of a viable small-scale commercial agriculture sector. Toward this end, the activities of the Bureau for Science and Technology are concentrated primarily on research, technology transfer, and capacity building. The research program, aimed largely at generating new technologies for agricultural production, but also involving related socio-economic policy analysis and nutrition, is carried out mostly by the International Agricultural Research Centers and by Collaborative Research Support Programs (CRSPs) with U.S. Title XII. universities and cooperating LDC institutions.

Our programs are designed to raise both food production and incomes on small farms; to expand off-farm income and employment through agribusiness and the use of appropriate, capital-saving technologies; to promote better nutrition through improved LDC policies, programs and practices, including improved use of locally available foods, especially by infants, pregnant women and nursing mothers; and to encourage environmentally-sound soil, water, agroforestry and energy programs.

As in FY 1982, FY 1983 will see relatively few new activities, with attention being devoted more to consolidation, and particularly to the concentration of resources by both central and regional bureaus in areas of mutually recognized high priority. For Fiscal Year 1983, we are proposing $107.6 million for the Science and Technology Bureau's agriculture, rural development and nutrition programs. This sum includes $48 million to the international agricultural research centers, which represents the 25% of total donor contributions that AID has provided to the Center network each year since 1971. These centers are continuing to perform work of superior quality and essential importance for food production in the developing countries. Moreover, the majority of CGIAR programs are designed to meet the needs of the most disadvantaged farmers.

## POPULATION PLANNING

As you know, A.I.D. does not provide or promote abortion services, nor does A.I.D. support research on abortion methods. The focus of the central A.I.D. population program is on providing family planning services, which include: commodities; training for physicians, paramedicals, and field workers; and technical assistance in the design and improvement of delivery systems. In addition to the delivery of family planning services, which commands the largest share of A.I.D. assistance, support is also provided for reseach, evaluation and technical assistance in fields such as demography, policy development, and information dissemination.

A.I.D. assistance has been concentrated on those countries, principally in Asia and Latin America, which were most committed and ready to implement population programs. We will continue to work with them to ensure continuation of the progress made so far.

Private programs play a critical role in our family planning efforts, especially in areas where U.S. bilateral programs have not yet been established, or where our bilateral program has been phased out. In many countries where these organizations work, the private sector essentially substitutes for government programs. In other countries, these organizations complement strong bilateral population efforts.

For Fiscal Year 1983, we are proposing $120 million for the Bureau's population programs, in addition to the amounts programmed by the regional bureaus, which combined total $201 million.

## HEALTH PROGRAMS

Good health is an integral part of the development process. Unfortunately, the majority of people in developing countries suffer from chronic, debilitating disease. In some LDCs as many as half of the children die before reaching the age of five. Hundreds of millions more, adults and children, are weakened by recurrent diarrheas, respiratory infections, and tropical diseases such as malaria, snail fever (schistosomiasis), river blindness (onchocerciasis), sleeping sickness (trypanosomiasis), and cholera.

The severity of LDC health problems has led A.I.D. to develop a primary health care strategy based on programs which meet LDC needs, are cost effective, use appropriate technology, and foster community participation and the use of village health workers.

The S&T Bureau's health programs augment in three ways the assistance provided to LDC governments by regional bureaus and missions: by providing immediate expert technical services; sponsoring field research and demonstration projects; and fostering more fundamental, long range research on improved means for preventing and treating illness. A.I.D. is requesting $23.5 million in health funds for FY 1983 for these activities in the S&T Bureau.

## EDUCATIONAL AND HUMAN RESOURCES

Despite impressive gains in the numbers of educated and skilled people, many developing countries find, first, that significant numbers of children and adults still lack access to any education or training; second, that the education and training which is available often fails to provide the skills and knowledge required for employment; and third, that education budgets, although comprising a large share of national budgets, fall far short of the ever-increasing costs of expanding school systems.

Consequently, these countries are striving to find improved ways of providing basic education and more effectively using scarce financial and human resources.

The Bureau's education and human resources programs respond to these concerns by giving priority to: improving access and quality of basic education and skills training; correcting the inefficiencies of the present school systems; overcoming shortages of critical technical, managerial, administrative and professional personnel; and strengthening administrative and management systems.

For FY 1983, A.I.D. requests $8.3 million for centrally-funded programs in education and human resources. These funds will support programs in basic education, non-formal education, development communications, development administration, women in development, labor development and international training.

## ENERGY AND SELECTED DEVELOPMENT ACTIVITIES

Certain development problems, energy for example, transcend the food, health, population and education functional categories. The Selected Development Activities Account enables A.I.D. to deal with functionally crosscutting development needs -- energy, environment, urban growth, and employment. Centrally funded Section 106 programs are proposed at $15 million in FY 1983. Energy activities will continue as a major central program component at $8 million in FY 1983.

Centrally-funded programs in forestry are providing technical support and counterpart training for reforestation and community forestry projects in developing countries. During fiscal year 1983, added emphasis will be put on applied research in tropical forestry management and the provision of services to strengthen forestry institutions in developing countries. Projects also will include support for an international network of agroforestry research institutions and the identification of solutions to agroforestry management problems. In the areas of environment and natural resources, central programs are designed to provide practical information and short- to medium-term advisory services for developing country institutions on matters related to environmental protection and natural resources management, surveying, planning, assessment and project design. Components of these programs include training for developing country professional personnel involved in the management of technical activities and the planning of national resource use and conservation strategies.

The Bureau for Science and Technology energy programs provide a range of specialized services to support A.I.D.'s bilateral activities in strengthening institutional capabilities in the energy sector through training and technical assistance, in energy planning, policy development and conservation, and in the transfer of relevant technologies that will permit the substitution of indigenous resources for imported fuels. Centrally-managed energy training programs are designed to focus on the specific needs of developing countries for personnel with expertise in conventional energy, knowledge of energy management and planning methodologies, and experience in the application of alternative energy technologies. Technical support for field programs includes the provision of expert energy reconnaissance and assessment services that can assist countries in identifying, for example, the potential for small hydropower development, solar-based water pumping systems, or ethanol fuel production from agricultural waste products such as bagasse. Selected research-oriented activities of the central energy program include the dissemination of research results on state-of-the-art technology for small hydropower, biomass, woodstoves and other small-scale technologies. An important aspect of the Bureau's project activities in the energy area, as well as in other areas such as forestry and natural resources management, is that these may serve as forerunners to larger A.I.D. or other donor bilateral programs and also can provide the basis for private sector development.

## A.I.D.'s SCIENCE ADVISOR

In FY 1981, Congress established a new Program for Scientific and Technical Cooperation, with two major functions. The first is to support research on the potential developmental uses of emerging technologies such as plant tissue culture, biological vector control, agrochemistry, biological resources development, micro-electronics, biological nitrogen fixation and biomass energy. The second function is to promote innovative approaches for strengthening the capacity of less developed countries to take advantage of these new technologies.

To carry out this program mandate, A.I.D. established in FY 1981 the Office of the Science Advisor. This Office, through a system of highly competitive research grants, provides broad access to scientists, especially from the LDCs, to submit their most innovative ideas for funding. The Office of the Science Advisor is also directly managing a project to strengthen LDC scientific and technological capacity to undertake research and experimentation in the same areas covered by the innovative research project. The focus of this project is to identify LDC leadership potential in science and to provide some of the resources necessary to realize a fuller developmental benefit from such leadership. The activities funded under this project emphasize U.S./LDC institutional partnerships, private sector involvement, and post-training assistance for selected scientists to continue their research interests in LDC's. Illustrative activities are designed to:

-- Institute a collaborative program between the University of Maryland and the principal fisheries institutions in the West Coast Region of North and Central Africa;

-- Expand the knowledge and industry of aquaculture (particularly fresh water shrimp) through support of a technical training center in Costa Rica in conjunction with the private sector;

-- Identify the education and training needs for food and nutrition personnel in Africa in the areas of program planning, implementation and evaluation; and to train seven African scientists.

In addition, under a five year grant to the National Academy of Sciences (NAS), A.I.D. takes advantage of the extraordinary scientific resources of the NAS to identify underexploited technologies of potential economic value and to establish and fund networks of LDC research institutions to explore and improve those technologies. The NAS will concentrate its sub-grants for research and its capacity building activities in those areas where the Academy has experience and special expertise, and where A.I.D. has not been previously or directly involved. Such areas include grain amaranth, fast-growing nitrogen-fixing trees, biological nitrogen-fixation, agricultural pest management, and technology for epidemiological assessment.

Mr. Chairman, I appreciate this opportunity to appear before you today and would now be happy to answer your questions.

### BENEFITS FROM RESEARCH FUNDING

Senator **Kasten**. Thank you.

Do you have any way of measuring whether or how these research fund expenditures have directly benefited the foreign assistance program?

It is clear it has benefited the universities and institutions in the United States that get the money, but it is difficult for me to see a direct link as to whether or not the bulk of this funding really benefits the foreign assistance program.

Is there any way that you can measure what these dollars are really doing?

Dr. **Brady**. You certainly can, but not in 2 years.

Senator **Kasten**. Well, go back to 1961 when it began.

Dr. **Brady**. Let us go back to 1961, and let us go back to 1960 when the International Rice Institute that I had the privilege of serving at was formed. Let us take a look at what has happened to the wheat and rice users around the world, that can be attributed directly to international agricultural research centers that our funds have gone into, and we provide 25 percent of those moneys.

You take the country of Mexico alone, the difference in their wheat production today and what it was in 1960 is $4 billion. The same thing is true in India. If you take a look at their wheat production, it was 12 million tons when it started and 26 million tons at the present time.

During the 10 years that I happened to be associated indirectly and directly with the International Rice Institute, the rice production in Indonesia went from 12 million metric tons to 22 and this year, for the first time, Indonesia produced more rice than it consumed.

There is no question but what that is related directly to the International Rice Institute because 80 percent of the rices they grow are of the short stature type that came from that research program and 70 percent of that 80 percent is a single IR-36 produced by the scientists of the International Rice Institute.

I just came from a conference in Africa held at one of these international institutes, the International Institute of Tropical Agriculture, where the AID officers throughout Africa came for a conference of their own.

While there they interacted with the directors of four or five of these international centers, and the thing that interested me was the number of times when they would say, "Well, we are trying to get this program going, but we don't have a sorghum variety that is resistant to the shoot fly," or "This program is going, but we have a wilt problem."

So you could see immediately the interaction between what those institutes were doing and what could be successful around the world. I don't think that there is any place in the world right now where research of the sort that we would help we could do ourselves, but just as important is to encourage the missions and the regional bureaus to get involved in it.

So, I could give other examples.

Senator KASTEN. We believe that one of the most successful things you have done is the International Rice Research Institute, but you are confident that there are a number of such examples?

Dr. BRADY. We do the same thing in health. Let us look at what happened to malaria and now we are in trouble again with malaria because the mosquito is getting resistant to the insecticide. Even the organism that causes malaria is getting resistant to the drugs we use, and we are going back to the old quinine.

We have a research project that isn't important enough to any one region for them to be involved in, and we have a series of scientists, and they happen to be in this country, unlike the international centers. What is coming out of this is sort of vague predictions and scientists don't like to say—but probably within 5 years we will have a malaria vaccine that can be effective.

So I think that you can find consistent examples of the problems that we cannot solve with the knowledge and technology that is available to us today. We simply don't have the answers.

## INTERNATIONAL RICE RESEARCH INSTITUTE

Senator KASTEN. You talked about the International Rice Research Institute. As you know, we have always strongly supported that institution in this subcommittee, as well as some of the other international research institutions.

We have received, and I do not know if you are aware of this, a number of reports that at least one and maybe two of these institutions continue to be a drain. They are being funded despite an overwhelming consensus that they are a drain on the group and should be discontinued.

Are you aware that there are a couple of parts of the CGIAR Group that many people feel ought to be discontinued or cut out?

Dr. **Brady**. I don't know of any, that is any of the donors I am concerned with. Those in my own office that have visited these institutions, none say they must be cut out.

I think that there are some who are able to contribute more tomorrow and next year than others, but I think this would be a little unfair because I am not sure if you visited the International Rice Institute in 1964, 4 years after it was set up, that they could demonstrate that there was something coming out of the pipeline.

You see, it took 6 years before the first IRA wonder rice came through the pipeline and got out on the fields of the farmers. Some of these institutes that have not performed as well yet are in this stage. One of them happens to be located in the Near East area where you have had political problems, but they do have good scientists, and they are focusing on some of the problems.

### ETHIOPIA

Senator **Kasten**. We were concerned about Ethiopia.

Dr. **Brady**. Yes; they have had some difficulty, but I spent some time with the director of research of that Institute when I was in Africa the last time, and I think that they are beginning to get their show underway.

I would warn, however, that any livestock institute is going to have a longer term gestation period because you can grow four crops of rice in a year, and you don't grow that many animals.

While we have millions of plants to look at, that is a more difficult show as far as the livestock is concerned. But I would say for Africa, that the ILCA Center in Ethiopia and the center in Kenya, between the two of them they offer as much hope as any others for the remarkable problems that we have in trying to grow or trying to produce cattle in some of those countries.

So the payoff in the next 2 or 3 years will be less but I wouldn't want to say that they would necessarily be less in the long run. I can, however, indicate from my own experience at IRRI, it does seem a shame when you have IRRI and CIMMYT in Mexico and the center in Colombia that have been there, they may have to be hampered because of this business of inadequate money partly because of inadequate money and partly because of the change of value of the dollar because their budgets are considered in dollars.

### TECHNOLOGY TRANSFER

Senator **Kasten**. Your prepared statement emphasized a policy which others at AID, including the Administrator, have emphasized, that there should be more technology transfer than resource transfer. But in that regard, are you aware that this year AID is proposing more funding for resource transfers than it ever has? That is going up, and it is at a higher level today than it has ever been.

Why is that apparent contradiction, if you want to emphasize the technology transfer?

Dr. **Brady**. You have to recognize that I am concerned with the part of the ball game that represents the development and transfer of technology, and I recognize that in any agency as large as AID and the U.S. Government, there are priorities that have to be looked at by others.

I can say, however, that I do believe there is no question in my mind that there is nothing that we can do that will bring about a greater long-term payoff than money put into trying to find out what kind of technology you use.

Senator **Kasten**. We do not disagree on that. The numbers don't indicate the concern that you expressed in your testimony.

Dr. **Brady**. As I say, I recognize that factors other than those that I am concerned with would have to be considered, and I have to admit I am biased because this is where my experience has been.

Senator **Kasten**. You are seeking $10 million for the establishment of the science and technology fund.

It was expected that the Agency would be developing its own programs in this area. Instead you have taken a significant amount of money, I think roughly half of that money, and given it over to the National Academy of Sciences, under, I understand, a 5-year grant. This in effect gives them the money to study what you should be doing, if I understand this correctly.

What do they have and what is the expertise that the National Academy of Sciences has for development assistance and foreign aid? Why aren't you trying to develop your own expertise rather than beefing up the National Academy of Sciences?

Dr. **Brady**. I think we are trying to do both, Senator. The arrangement with the Academy predated my coming to the Agency, but that doesn't mean that I am trying to blame someone else for the situation. I am responsible for it now, and I do think that the arrangements that we have are proper and working appropriately.

The Academy in this area of trying to find out what are the innovative things that should be done in science and technology, has moved as far with AID assistance as any organization in the United States. They are putting out a publication like this, and they say this in the Philippines, and they call it EPO.

It is a rapid growing legume tree that can be used for fodder, it can be used for fuel wood and it can be used, if you plant it right, in lieu of a fence and go along and cut it off and keep yourself with the fence posts. It will grow without fertilizer because it fixes its own nitrogen.

This is the kind of thing that the Academy has been responsible for in making studies and calling to the attention of the U.S. AID and others the activities that we should be involved in. But that is not the only thing that they do.

We are asking them to continue on a selected basis and with our request as we work with them mutually, to continue to make some of these kinds of studies, to help us identify what are the probable areas of progress.

As a second part of the program that they have, and one that we have worked with them very closely in trying to develop, is networking and getting a network of scientists overseas to work on selected problems including this one right here, where the grants would be made directly to the scientists in the developing countries.

You get a network of people working together on a subject like this and then you find out if this won't grow in acid soils or if it has to have good drainage and that sort of thing that isn't available to us.

There are four subject areas which have been selected for that kind of thing. That is nitrogen fixation, rapid growing nitrogen fixing trees, and grain amaranth, a unique plant that they discovered in Latin America. We have already sent seeds around the world that can be tested under these various conditions.

There is a fourth area of vectors for spreading of disease, what they can do to try to control those vectors. The research grants are being made entirely to people overseas. That makes up one component of the program.

I have absolutely no complaint about the way this is organized and I have to say it is different from when I got there, but I have nothing but praise for the way the National Academy of Sciences has been working with us.

Senator **Kasten**. Of course, I was not here either when this all began, but it was expected that the Agency was developing its own programs in this area. The fact is you have decided for any number of reasons to share 50–50 with the National Academy of Sciences.

Do you believe that that is the correct decision, and it is cost-efficient, and are you producing the kind of things you want?

Dr. **Brady**. As far as the other half of this is concerned, Dr. Minners, the science adviser, his office has solicited proposals primarily from the developing countries, and developing countries out of U.S. institutions that may be associated with a developing country institution on a sort of competitive grant basis.

We will have some 300 projects come to us for us to look at and to examine the ones we think will have some potential. Those will be cut down and go through this process and maybe cut down to 30 or 40 projects that would be useful.

Our regional bureaus and our missions are the source of this kind of information. We think eventually, if you have an LDC officer that is helping someone develop a project, it will help orient him in terms of what science can do in the developing countries.

### FISHERIES PROGRAM AT MARYLAND UNIVERSITY

Senator **Kasten**. Let me ask another institutional question on a different program. You indicate in your testimony that you have a cooperative program now between the University of Maryland and the fisheries institutions in Africa. It was our understanding that you had in the past decided that Auburn would be the key institution for efforts in terms of fisheries.

I do not want to get into a fight between the University of Maryland and Auburn, and since I am from Wisconsin I don't care which way you want to go. However, it seems to me if you have established one group and have been working with them, to branch off now and try to reinvent the wheel at another institution might not be cost-effective.

Dr. **Brady**. Well, I think I would agree in general we should not just be haphazard. I can say that we are continuing to work with Auburn, and we look upon them as a primary back-stopping organization in helping the missions develop a fresh-water fisheries program. But it happened that the University of Maryland was willing to work with a team overseas and they did have expertise in the particular area of marine stock assessment where this research was to be carried out.

Senator **Kasten**. Auburn was offered it, and refused it, or you just gave it to Maryland?

Dr. **Brady**. These aquaculture projects are developed by the developing countries and Auburn University as a techical assistance institution, and it was not requested to work in the marine fisheries area. We are trying to get a little bit more innovation into this system, and we feel we can get this if we can have some of these grants coming from people who have good ideas, and they can present them to us.

We are trying to see to it that we don't try to cover the whole world of science, but we are trying to see to it that these proposals must be oriented toward some goal in terms of food production, or some goal in terms of health, or some goal in terms of fisheries, and fisheries is a newer area.

This proposal as it came through seemed to be innovative, and we thought we would implement it. We have other institutions that are working in the fishery area, and the CRSP project is being developed. Oregon State and California are the two universities involved there.

We do have some activity with the Rhode Island University in the coastal fisheries, so it is not all at Auburn. Although Auburn from the standpoint of aquaculture is still our primary source of technical assistance.

## POPULATION PLANNING

Senator **Kasten**. To switch to another area, the discussions supporting population planning which you talked about in your prepared statement and also in your remarks here, basically center around the rapid and in some cases unacceptable growth of population in some of the poor areas around the world, and the discussion around the inability of the world to feed itself and starving and malnutrition of children.

Yet the great bulk of the AID population program is not country specific. I believe only $4 million is going to all of Africa in its regular programs. But what is significant is that large amounts of money continue to go to U.S. research institutions for studies which more and more people feel have little relevance to the basic population programs in the world.

Why are we putting so much money into research rather than into the practical application, if you will, and don't you think it is time to cut out some of the research dollars and shift it over to the specific population programs in the countries where everybody recognizes that there is a problem?

Dr. **Brady**. I am trying to look for the specific data. As a matter of fact, I think, Senator, only a relatively small portion of the bureau's population account goes into research. As a matter of fact, the Administrator sort of chided me a bit about this. Most of it is used for activities overseas, with larger contractors who are capable of working in several countries being the primary recipients of the funds.

Senator **Kasten**. We can get the specific numbers for the record, but you agree with me, then, that you want to be shifting? We are showing between 25 and 30 percent that is going to research by U.S. institutions.

Dr. **Brady**. Research institutions get $9 million out of $120 million, so that there may be some other kind of activity that is included, but the research division of the population office is $9.6 million.

So, as I say, we have been chided on the other side that we are not putting enough to the new knowledge generation component.

Senator **Kasten**. There may not be enough Government resources going in that direction, but it seems to me that the AID program itself ought to be directed as much as possible toward these particular problem areas and the particular problem countries that we recognize.

## SUBMITTED QUESTIONS

I have to go and vote. There are some additional questions that we may have to submit to you for the record and other members of the subcommittee may wish to submit additional questions to you.

I thank you for your testimony here today, and we will recess briefly while I vote, and then we will come back with Ms. Bloch.

[Recess.]

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### THE NATIONAL ACADEMY OF SCIENCES

Senator Kasten: Who specifically is heading this five-year grant in the National Academy of Sciences?

Dr. Brady: Dr. Victor Rabinowitch is in charge of this grant. He is also the Staff director of the Board on Science and Technology for International Development within the National Academy of Sciences, and has held this position since 1970.

Senator Kasten: Give us more details on the National Academy of Sciences Grant, please.

Dr. Brady: In January 1981, AID signed a five-year grant with the National Academy of Sciences to identify under-exploited technologies of potential economic value to developing countries and fund networks of developing country research institutions to explore and improve these technologies. AID's contribution to this grant under the Applying Science and Technology to Development Project will be approximately $5 million in FY 1982 and a similar amount in FY 1983.

Most of the project funds support a research program which is advised by a committee of distinguished scientists from both the United States and developing countries. The project will support research in up to twelve research areas for research to be done in developing countries -- not in the United States. Work has already begun in four topics -- grain amaranth; fast-growing nitrogen-fixing trees; biological nitrogen fixation; and mosquito vector research.

Grain amaranth is a broad-leaf plant that has small seeds with a high content of good quality protein. The objective of this research is to collect basic information on the most promising varieties of amaranth to determine how this plant can be developed as a major crop for semi-arid lands. The Academy has already awarded three grants to research institutions in Peru, Mexico and Guatemala. Additional proposals from institutions in Kenya, India, Thailand and the Philippines are being proposed.

The second research area on fast-growing, nitrogen-fixing trees has stimulated proposals from research centers in eleven countries in Asia, Africa and Latin America. Two grants have already been awarded to centers in Kenya and Thailand. The research strategy is to identify lesser known tree species that have special nitrogen-fixing characteristics and then subsequently to conduct comparative field trials of the most promising species. Such trees offer the prospect of producing considerable firewood over short periods of time, as well as natural fertilizer for the growth of food crops.

In March, the Academy held an organizational meeting to adopt a research strategy for studying how to optimize the use of biological-nitrogen-fixing organisms and plants in agricultural systems. What is unclear is the process by which food crops benefit from the nitrogen in those organisms and plants. The challenge is to try to provide developing countries with a less costly alternative to using chemical nitrogen fertilizers. Participants at the organizational meeting came from Senegal, Indonesia, Kenya, Pakistan, Peru, Costa Rica, and Thailand.

In April, the Academy held an organizational meeting on mosquito vector research with participants from the West Indies, Mexico, India, Uganda, Thailand, and Indonesia. Since the total eradication of mosquitoes is impractical, this research will focus on the long-term reduction and control of mosquito populations through a combination of biological and chemical control agents tailored to local conditions.

Another major portion of the project undertakes studies that suggest innovative applications of technologies relevant to major development problems. Study reports bring together the latest information on the state-of-the-art and specific work under way on a topic. Recent studies focus on underexploited Asian plant and animal species in Southeast Asian villages that seem to have exceptional economic promise; shrubs and trees that have high potential for firewood production; and opportunities for developing countries in the areas of marine sciences.

The project also sponsors workshops and conferences which are useful in establishing research priorities in selected technical fields. For example, the Academy is organizing a major workshop to develop a research agenda in the new field of biotechnology (genetic engineering). The Academy will also hold a meeting on technology for the control of guinea worm disease, a painful and disfiguring disease affecting millions in Africa and Asia which has received all too little attention from the world's scientific community.

Over the life of the project, we expect the Academy will sponsor twelve research networks involving over 100 research centers in developing countries, 26 studies, 15 major workshops and meetings, and a major publication effort to disseminate the results of all these activities. Moreover, we expect that this program will make a significant impact on strengthening the capacity of less-developed countries to take advantage of the new and emerging techologies relevant to their development problems as well as influencing the scientific direction of many of our bilateral development programs.

## FUNDING FOR SCIENTIFIC RESEARCH

Senator Kasten: Do you have any idea how much funding has been provided to universities and other institutions for scientific research in connection with A.I.D.'s assistance programs since the inception of the Foreign Assistance Act of 1961?

Dr. Brady: This is a large question to which I should like to respond at some length. A.I.D. has quite complete data on total expenditures for centrally-funded research since the inception of the Foreign Assistance Act of 1961. A.I.D. does not have similarly complete data for research done as an integral part of individual country assistance programs. The purpose of the individual A.I.D. country mission program is, of course, to assist that country to achieve economic and social development, rather than, as in the case of centrally-funded research, to develop knowledge and technology for world-wide application. However, to be effective, country assistance efforts must often include a component of research or of support to local research institutions, to develop new or adapt existing knowledge or technology to fit local circumstances and needs.

The centrally-funded research work is carried out for A.I.D. by a number of different type institutions: U.S. universities, U.S. government agencies, private firms, international research centers and various developing country institutions. Regardless of by whom the research is done, the purpose is to serve developing country needs.

A.I.D. has invested approximately $312,530,000 under the centrally-funded research program during the twenty one fiscal years 1961 through 1981. In addition, A.I.D. has provided approximately $173,000,000 in partial support of the International Agricultural Research Centers and $31,000,000 in partial support of Collaborative Research Support programs in food and nutrition. Finally, some $47,693,000 has been expended on several centrally funded world-wide Health and Population projects of a combined operations research and development assistance nature, of which perhaps one-half ($24,000,000) has been for research and analytical work. The total A.I.D. investment in centrally-funded research, for the twenty fiscal years 1962 through 1981, is $540 million.

Such investments in research are best understood when seen as a principal means of development assistance. Virtually all scholarship on the subject agrees that of all major categories of development investments, research yields far the highest rates of returns. As one illustration, the International Maize and Wheat Improvement Center (CIMMYT), located in Mexico, estimates that more than 86 million acres of wheat were planted in 1980 to high yielding varieties which incorporate germ plasm developed by CIMMYT. These varieties, along with such associated inputs as fertilizer, have increased total annual wheat production by about 25 million tons, valued at about $4 billion, per year.

## COUNTRY MISSION DIRECTORS' INPUT INTO DECISIONMAKING PROCESS

Senator Kasten: Can you describe how Country Mission Directors have an input into the decisionmaking process which your Bureau is responsible for? How much weight do you give to such input from these Country Mission Directors? Is it not true that the Country Mission Directors by and large believe that too much of the type of thing you do is unrelated and of little benefit to what they are doing in the field?

Dr. Brady: The project development process of the Bureau of Science and Technology provides for continuous involvement of both Country Missions and Regional Bureaus. In general, projects are jointly conceptualized by the Bureau, the Missions and the Regional Bureaus. As the project is developed modifications are made to make it more responsive to Mission needs. Any project involving demonstration sites will be jointly developed (and in some cases jointly funded) with the A.I.D. Mission. During the implementation phase frequent management reviews and evaluations provided further opportunities for adjustment in project design. No Science and Technology activities are undertaken in any country without the approval of the Mission Director.

It may be true that some Mission Directors are not fully aware of the potential benefits of some Science and Technology research projects. However, I believe the majority support our program. In addition to applied and development research, a significant portion of our portfolio consists of field support projects ($20-25 million). The projects prpovide technical expertise to assist with project design, evaluation and implementation. These services are essential to the successful functioning of country programs.

## FUNDING LEVELS FOR CGIAR AND IRRI

Senator Kasten: What are we giving to the International Rice Research Institute in FY 1983?

Dr. Brady: Pledges to individual international research centers for a specific fiscal year are not made until the early part of that fiscal year; however, it is likely that it will be about 10 to 20 percent higher than the FY 1982 level.

Senator Kasten: How much did we give IRRI in FY 1981 and FY 1982?

Dr. Brady: In FY 1981, we provided $4.3 million. In FY 1982 we have already provided $4.7 million and expect to provide additional funds. The exact amount will depend on the final contribution of other donors.

Senator Kasten: What are we contributing to the CGIAR group in FY 1983?

Dr. Brady: In FY 1983 we are proposing $47 million.

Senator Kasten: How does it compare to FY 1982 and FY 1981?

Dr. Brady: In FY 1982, we plan to provide up to $40.7 million and in FY 1981 we provided $35 million.

## FUNDING FOR W.H.O. SPECIAL PROGRAM OF RESEARCH IN HUMAN REPRODUCTION

Senator Kasten: The current law prohibits A.I.D. funding of the World Health Organization's Special Programme of Research, Development and Research Training in Human Reproduction.

Are you requesting any funding for this program in fiscal year 1983?

Dr. Brady: A.I.D. is not requesting any funds for this program in fiscal year 1983.

## LDC CAPACITY TO SUPPORT THEIR OWN INSTITUTIONS

Senator Inouye: You note that, at the 1979 U.N. Conference on Science and Technology for Development in Vienna, representatives of the less developed countries "indicated that they were placing a much higher priority than ever before on building their own institutional capacity to apply science and technology to their development problems..."

Was this indication of intent matched by increased budgetary support on the part of LDCs for their own institutions?

Dr. Brady: Developing countries have a mixed record on budget increases for science and technology institutions, but they have generally provided increasing budgetary support to their own institutions which they believe are critical in meeting development needs. A.I.D. is encouraging the provision of such support by emphasizing long-term institutional development and providing technical assistance for local resource mobilization when requested.

Senator Inouye: Do you believe that LDCs have the ability to meet the recurrent costs of operating and staffing their own institutions? As you kow, this has been a major problem faced by LDCs following the termination of A.I.D. funding for development projects.

Dr. Brady: At this time, most developing countries do not have sufficient capacity to meet recurrent costs. The problem is magnified by financial needs resulting from development work spanning the past two decades when the recurrent cost problem was not sufficiently appreciated. LDCs must plan to meet these costs in present and future development efforts at the same time that they are coping with the recurrent cost burdens of past commitments. A.I.D. now requires analysis of recurrent cost implications for all new projects which it supports and encourages other donors to pay more attention to this need.

Senator Inouye: As each LDC begins to develop its own institutional capacity, is there not a danger that these institutions will engage in duplicative activities while competing with each other for scarce financial and intellectual resources?

Dr. Brady: That danger does indeed exist. However, LDC governments recognize that the human resources available for institutional development in science and technology are finite. The possibilities for overlapping institutions are limited by the inability of all such institutions to gain access to key personnel. Also, most governments want to make good use of their scarce resources and avoid duplication.

Senator Inouye: Would it be more appropriate to support regional institutions?

Dr. Brady: In some instances regional institutions are appropriate and are being supported. However, regional institutions will usually require some form of complementary organization at the national level in order to deal adequately with the particular circumstances within countries. They can also be hampered by political and economic tensions among countries. Where these problems can be overcome, regional institutions can offer useful economies of scale and make excellent use of scarce scientific and technical talent for the common good of the countries involved.

## USE OF A.I.D. FUNDS IN DEVELOPING COUNTRIES

Senator Inouye: Over the past several years, many in Congress have felt that too much of the Agency's funds are spent on studies and preparing to act and too little in actually delivering goods and services to the poor majority in the developing countries. How will the new Bureau for Science and Technology address this problem? Can you give a specific example of a centrally funded research and development project which resulted in the acceleration of the delivery of goods and services to the poor majority in the developing world?

Dr. Brady: There is a general problem in LDC's of a lack of accurate up-to-date baseline data which requires any prudent investor to undertake sufficient studies prior to starting major projects.

The Science and Technology Bureau is attempting to codify and disseminate, in a timely fashion, the results of A.I.D.'s research and studies and the relevant experiences of others. A new Publication Division is being formed to facilitate this task. In this way the S&T Bureau hopes to enable a project designer to know the state-of-the-art, the relevant studies that already exist and the experiences of others in similar projects.

The centrally funded research and development activities at the Tennessee Valley Authoirty (TVA) and the International Fertilizer Development Center (IFDC) provide an example of centrally funded research and development activity which resulted in the acceleration of the delivery of goods and services to the poor. These activities laid the foundation for assessing the fertilizer needs of Bangladesh and the capacity of existing and proposed organizations to meet those needs. These activities demonstrated the value of high analysis fertilizers, of better packaging, of more efficient bulk shipping and provided funds for the modular pilot plant at IFDC which permitted the training of Bangladeshi engineers in a number of critical operational and maintainance skills.

Fertilizer use in Bangladesh has increased more than tenfold since 1962. A close inquiry into the beneficiaries of this use shows that while larger farmers use more fertilizer than small farmers, small farmers use it more intensively. More than sixty percent of farmers in all size classes use some fertilizer. Over four seasons farmers with one acre or less obtained a greater net return per acre than those with greater acreage. Even sharecroppers found the use of fertilizer profitable but had to share the profits with their landlords.

Advice and training are helping to keep the cost of fertilizers down. Bulk shipping demonstrated as practical by TVA in 1971 can cut the landed cost of fertilizer by 10 - 20 percent while creating jobs for unskilled laborers in the ports. Training of engineers has increased factory output and transport efficiency. The new marketing system, designed at Mission request, is more responsive to farmers' needs and has maintained the sales rate in the face of a price increase in excess of 40 percent. IFDC has been the leading force in this program since 1974.

## GENERAL ACCOUNTING OFFICE INVESTIGATION

Senator Inouye: A 1979 General Accounting Office investigation of A.I.D. studies and Research found that the Agency does not

-- give adequate attention to information already available before contracting for more studies and research,

-- assure itself that it has received the product it contracted to buy, and

-- disseminate this information effectively to others.

How will the Science and Technology Bureau address these issues? What specific measures have you taken to ensure adequate dissemination of research findings? What controls have you instituted to ensure that A.I.D. does not fund unnecessary research?

Dr. Brady: With respect to your question on dissemination of research results, I am pleased to report that A.I.D.'s Bureau for Science and Technology has taken several steps to achieve better dissemination of research results, and other science and technology material, to Agency field offices and third world counterparts. These include:

- The incorporation of technical transfer components into ongoing research projects such as, for example, the nitrogen fixation project (NifTAL) and the benchmark soils project;
- The provision of separate support services projects, such as those for soils management support services and agriculture production, to take to the field the results of current research through periodicals, scientific publications, seminars and workshops, training courses, personal communications and a systematic networking of international and national research centers;
- The creation of a Publications and Information Division within the Office for Technical Review and Information to monitor the output of A.I.D. financed research to assume that the results are effectively disseminated.

Regarding your question on controls to avoid unnecessary research, A.I.D. has for many years maintained a quite elaborate program review process to ensure against funding unnecessary centrally funded research. These include:

- Requirements that staff examine other related research as part of each project justification;
- A series of internal review processes, involving regional bureaus and other relevant offices, for all research projects;
- Final scrutiny of each research project by an external Research Advisory Committee of eminent scientists, before initial funding or major extension. This review focuses on technical soundness and possible redundancy with other completed or ongoing research work;
- Specially commissioned state-of-the-art reviews of specific subject areas as deemed necessary;
- Participation in such relevant inter-governmental agency research information exchange systems as has been in effect.

However, A.I.D. feels that centrally-funded research can be better coordinated with the various country mission funded programs which use, or could use, the findings of the centrally-funded research. The Science and Technology Bureau is initiating a number of Agency-wide procedures to remedy this deficiency. These include:

- Establishing an internal Science and Technology Advisory Committee which considers all aspects of improved development and application of science and technology in A.I.D. assistance efforts;

- Establishing internal Sector Councils to improve A.I.D. approaches and performance at the individual sector level;

- Modifying the role of the external Research Advisory Committee to assist A.I.D. in formulating policies, strategies, and priorities to achieve more effective interaction between A.I.D.'s research activities and its development assistance programs.

To assure ourselves that we do receive what we have contracted to buy, we are continuing our efforts to forge effective teams of project managers, evaluation officers and contract officers to manage our projects and evaluate the results.

## SCIENCE AND TECHNOLOGY SECTOR COUNCILS

Senator Inouye: Within the Bureau for Science and Technology you have established four directorates and six Science and Technology Sector Councils. Apparently, these sub-organizations have overlapping jurisdictions. Is that correct?

How does the establishment of these organizations improve the Agency's ability to perform its functions? They suggest an over-bureaucratization of A.I.D.'s science and technology activities. Is that an inaccurate perception?

Dr. Brady: Four Directorates - Food and Agriculture, Energy and Natural Resources, Human Resources, and Health and Population -- have been established as sub-organizations of the Bureau for Science and Technology. The six Sector Councils are Agency coordinating mechanisms which link the S&T Directorates (and subordinate offices) with their counterpart sector organizations and professional staff in the Regional Bureaus and other central bureaus such as Program and Policy Coordination. The Sector Councils were established to provide a means for assuring greater involvement of A.I.D. scientific and technical personnel in Agency policy and program development processes. Their primary purpose is to improve the scientific and technical quality of A.I.D.'s programs and projects. As such, they may, for example, review S&T Bureau projects and advise on the technical merits. However, their role is advisory, whereas the S&T Bureau's role with respect to those projects is operational. We do not see these functions as overlapping or duplicative.

In a complex, decentralized organization such as A.I.D., where scientific and technical staff are located in at least six bureaus in Washington and some 70 missions overseas, the Sector Councils provide one means for mobilizing the Agency's top professional technical expertise from each bureau and bringing it to bear on the technical aspects of Agency policies, strategies, programs, projects, and staff utilization and training. We view this as an effective utilization of scarce technical professional resources rather than as an over-bureaucratization of A.I.D.'s science and technology activities.

Senator Inouye: Your prepared statement suggests that a major responsibility of the six Science and Technology Councils is the preparation of A.I.D. Sector Policy Papers.

How many of these Sector Policy Papers have been completed? Have they been made available to A.I.D. missions abroad? What is the intended use of these Sector Policy Papers? How will they improve project planning and implementation?

Dr. Brady: A major responsibility of the six Science and Technology Sector Councils is the development of A.I.D. Sector Strategy (not Policy) Papers. The Bureau for Program nd Policy Coordination (PPC) is responsible for the preparation of A.I.D. Sector Policy Papers, that is, for setting forth the overall objectives of U.S. bilateral economic assistance in each sector and the elements A.I.D. will emphasize to accomplish those objectives. The Sector Councils advise PPC on the technical aspects of policy elements, and when a policy statement has been approved, develop a strategy for linking the resources A.I.D. can draw upon for accomplishing its policy objectives. Policy papers focus on what is to be done from among alternatives to achieve general goals, whereas strategy papers focus on how resources are to be deployed in support of adopted policies. Sector Strategy papers, therefore, of necessity, follow Sector Policy Papers.

New or revised Sector Policy Papers have been approved for Food and Agricultural Development Assistance, Nutrition, and Water and Sanitation (a sub-sector of Health) and are in final stages of development for Population, Education, and Institutional Development (a cross-sectoral policy paper). All approved Sectoral Policy Papers are published in the Agency's Policy Handbook and made available to A.I.D. Missions abroad and the Agency, generally. Strategy Papers are being developed for all sectors; none has yet been completed.

Agency Policy and Strategy Papers provide the framework for developing and reviewing Regional policy and strategy statements, Country Development Strategy Statements (CDSS's), and central, regional, and country programs and projects. In the case of Food and Agriculture, for example, the Policy Statement is also intended to form the basis for discussions with other U.S. Government Agencies, leading to the formulation of a U.S. Policy Statement on Food and Agricultural Development Assistance that will include policy implications for U.S. participation in multilateral organizations that provide food and agricultural assistance.

Inasmuch as policy and strategy statements flow from periodic assessments of the Agency's experience in providing assistance in the sector as well as from over-arching policy directions embodied in legislation and Executive Branch policy statements, they build on the lessons learned about what works and what does not, what conditions support successful assistance efforts and which do not, etc. Thus, they provide guidance for improved program and project planning implementation.

## AID HANDPUMP PROGRAM

Senator Inouye: The Bureau for Science and Technology is, according to your statement, to provide technical support for field programs which "includes the provision of expert energy reconnaissance and assessment services that can assist countries in identifying, for example, . . . solar-based water pumping systems."

Two years ago, AID financed the development of a simple, inexpensive handpump.

How many AID Missions have made use of these handpumps in their programs?

Dr. Brady: To date, the AID handpump technology transfer program has resulted in field projects in Costa Rica, Nicaragua, Honduras, Ecuador, the Dominican Republic, Sri Lanka, Indonesia, the Philippines, Tunisia, and Haiti. We are currently exploring the possibility for handpump programs in Peru, Pakistan, Nepal, Kenya and the Sudan. In several countries, we found that local foundries and machine shops did not have the necessary resources to manufacture the pumps or that the market size was too small to justify production in the country. These have included Liberia, Togo, and Benin. Bolivia was also investigated as a possible location to manufacture the AID handpump, but was found already to have an acceptable, locally manufactured handpump available under a World Bank development program.

Senator Inouye: How many Missions are aware of the AID-financed handpump?

Dr. Brady: Essentially all of our U.S. AID Missions are aware of the AID-financed handpump program. This awareness has resulted from extensive distribution to the field of a report which describes the development of the pump and its adaptation and testing in several countries. Information on the AID handpump program has also gone to the field Missions and other development organizations in the form of articles in the AID development publication Resources Report and in the AID Front Lines and Development Forum publications.

## AID'S SOLAR-BASED WATER PUMPING SYSTEMS

Senator Inouye: How will the development of solar-based water pumping systems improve on this record? (The record for handpumps.)

Dr. Brady: It is too early to determine whether or not solar-based water pumping systems will offer a viable alternative to currently available technologies. These systems are still in a rudimentary stage of development, and conclusive evidence of their feasibility, based on trial application in LDCs, is not yet available. However, it is clear that in order to provide safe water in reasonable quantities to third world communities, we must seek alternatives to the expensive diesel fuel traditionally used, which LDC populations can ill afford.

Senator Inouye: Is it realistic to assume that LDCs can afford solar-based water systems or that they will incorporate such systems into their strategies of development?

Dr. Brady: At present the economics of solar-based technologies are such that they are not directly competitive economically with other alternatives. There is interest, however, on the part of LDC counterparts in having these types of technologies available in small pilot programs in their countries for various political and scientific development purposes. Solar-based pumping economics should improve significantly within the next 10 years as a result of significant advances in solar-cell/array manufacturing approaches. As to whether or not the LDCs will incorporate solar-based pumping systems into their strategies of development, we currently have no way to answer definitively "yes" or "no." Most of our programs in the solar-based technologies are relatively small field demonstration pilots to show that such systems are possible in the LDC context, at least on a pilot, exploratory basis.

## BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

### STATEMENT OF MS. JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Senator **KASTEN**. The subcommittee will come to order.

Julia Bloch, Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance is our next witness.

As you know, we have a copy of your statement, and if you can summarize your statement briefly that will be helpful to us.

Ms. **BLOCH**. Thank you. This is my first time before the subcommittee, and I welcome the opportunity.

AID requests a development assistance budget for fiscal year 1983 that will support the programs of the Food for Peace and Voluntary Assistance Bureau in the amount of $38 million.

Although the American schools and hospitals abroad program is a part of the FVA bureau, I will not be addressing the budget questions with respect to that office because the subcommittee has scheduled a separate hearing on ASHA for May 28.

Senator, as you know, since 1973, virtually every AID authorization bill has addressed the issue of U.S. Government support of private voluntary organizations. In fiscal year 1982 the legislation stated, and I quote: "an increasingly productive partnership between AID and the nonprofit voluntary sector" has been established.

AID's support for PVO programs has grown considerably since it began in the late 1940's, as has the support of the American private sector. In 1980, those PVO's registered with AID raised $734 million from the private sector, as compared to $473 million in 1973.

Now, in pursuit of this collaborative and productive relationship, AID will be channeling nearly 13 percent or $180 million of our request for development assistance funds for fiscal year 1983 through PVO's.

Now let me stress, Senator, that what I am going to be addressing today is strictly that portion of the request that will go to centrally funded PVO programs and those centrally funded projects that support our Food for Peace program.

As I said, the request is $38 million. Approximately $33 million of that will be going to the centrally funded PVO grant programs; $750,000 is requested to implement the terms of the Biden-Pell amendment; and approximately $4.2 million to support two Food for Peace projects entitled, "title II outreach," and "project support and management."

### AUDITS OF PUBLIC LAW 480 PROGRAMS

Senator **Kasten**. As you are probably aware, the two programs which have recently been receiving the most adverse audit reports are the Public Law 480 programs and the programs of the private voluntary organizations.

On Public Law 480, our audit reports state that food is not going to intended beneficiaries, large-scale pilferage, loss, and fraud, food being sold instead of being given away as it was intended. Overall in the PVO's the basic problem is accountability.

I wonder if you could tell us what you are doing to try to correct these deficiencies, if you are able to use these audit reports in a positive way, and if you are responding to the concerns found and repeated, I should say, by the AID Inspector General, and if you need more information or more tools in order to eliminate these problems.

Ms. **Bloch**. I think it is a good question because I have been very concerned and Peter McPherson has been very concerned about this question of accountability, both on the side of the Food for Peace program, as well as on the side of our programs with PVO's.

I have already had quite extensive discussions with our IG, Mr. Beckington, and, in fact, we are trying to pull together a summary of the audits from past years to identify the patterns of management or administrative logistical problems in the Food for Peace program. That is well on its way.

We are going to be holding for the first time a worldwide Food for Peace officers conference, and we hope to address some of those problems that have been found year after year in these audit reports.

On another front we have initiated wide-ranging discussions with the PVO community. As you know, the title II Food for Peace programs are administered primarily through CARE and CRS. Let me also emphasize, and I think Mr. Beckington understands this, that there is no more management-intensive program than the Food for Peace program, since the countries with these activities are often the ones where implementation problems are the greatest.

Because of this, our problems often begin when the food docks at the recipient port——

Senator **Kasten**. That is where we seem to lose accountability, too.

Ms. **Bloch**. The $4,300,000 that I just mentioned will support title II outreach and project management for the Food for Peace program. Although a drop in the bucket, it is designed specifically to try to address these problems.

Many of our PVO's must work with indigenous capabilities, with indigenous human resources, and as you know, title II programs are targeted at the poorest countries, where the facilities, the infrastructure for transportation, distribution and storage are lacking. We have used our outreach program and our program support and management project to improve those kinds of facilities where possible in the poorest countries to reach the neediest population, because the neediest population usually resides in areas of the country that are the most difficult to reach.

Also we use some of the funds to run regional seminars for indigenous personnel, as well as for our own personnel, so they can better understand how to deal with the logistical difficulties, to manage better, and to face up to some of the problems.

But we hope to get more ideas from our conferences because I don't think we can do enough really to make sure that we keep pilferage and spoilage and those kinds of problems to the very minimum.

## NEED TO IMPROVE OVERSIGHT

Senator KASTEN. At a time when we are cutting back or in other ways limiting growth in so many domestic programs, foreign aid is under a lot of scrutiny, and frankly does not have a lot of political support. If someone in your family is out of work, you are not anxious to send money overseas. Then if you learn about the waste or fraud or abuse or inefficiency of a program, it just makes it more difficult.

I just want to express to you so you can express to the people you are working with that these programs are in political jeopardy now, and to the degree that we continue to uncover the waste and fraud, it just makes it harder and harder and worse and worse.

So it is in everyone's best interest to get these problems worked out. In that regard, do we have your assurance that you will do everything in your power to work with these recommendations of the Inspector General, particularly in matters which are within your jurisdiction?

Ms. BLOCH. Absolutely, Senator Kasten.

I might add, also, I am not sure we have told the good stories as well as we might. We are beginning to look at some of the more positive accomplishments, particularly of the Food for Peace program.

As you know, the media tends to focus on problem areas, and what we would like to do is present a much more balanced picture. Hopefully as we move further along in terms of our own information gathering, we will be able to offer you some examples where these programs are run very efficiently.

## ACCOUNTABILITY OF PVO'S

But I haven't really addressed your question with respect to accountability on the PVO grant side, and we recognize that more work needs to be done in this area, as well. I think you should know that we are going through a major policy review process involving the PVO community and the entire AID agency, as well as our missions overseas.

That process is ongoing. A draft policy statement was shared with the Advisory Committee on Voluntary Foreign Aid, and we are looking forward to hearing their advice and counsel in terms of what they think will be the optimum kind of relationship.

Within that review, one of the major recommendations will be for a more critical look at our criteria for grant making to target our resources better on the most productive kinds of activities.

We have stepped up auditing and evaluation procedures, and we have also asked the PVO's in the next round of our matching grant proposals to be much more specific in terms of their program design and in terms of the output that they are anticipating.

Senator **Kasten**. In that regard, do you make it a condition of the contracts you have with the PVO's, that your agency and the Inspector General will have full access, for audit purposes, to all books and all financial records relative to such grants?

Ms. **Bloch**. This issue does not arise relative to grants awarded directly to American PVO's, but sometimes it is an issue with subgrantees.

Senator **Kasten**. Isn't it true that some of these PVO's have stalled and seemed to limit the access of AID auditors to their programs?

Ms. **Bloch**. Not that I know of, I think it would be contrary to the rules and regulations. If they receive a grant from us, they ought to open their books to the auditors.

### PVO SUBGRANTEES

Senator **Kasten**. How do you define subgrantees or sub-PVO's? You said essentially that you have access to the people that we are funding, but they in turn fund others, and that subgroup sometimes is not open to audit reports.

Ms. **Bloch**. Some of our PVO's have counterparts, and they work with an indigenous PVO, let us say, in Honduras. Our funding goes to the American PVO, and they then in effect subcontract or work with their counterparts.

Senator **Kasten**. It is a subcontractor that we don't always have access to?

Ms. **Bloch**. We don't have direct access, but what we have worked out with the IG and something that he is agreeable to, is a process through which an independent CPA auditor will look at their books and use broad GAO guidelines, so that we are comfortable, and we are assured that those funds are being accounted for.

I should also say that each American PVO that wants to have a waiver of that kind will have to come and make a request, and we work out the procedures. Again the IG has a signoff.

### CARIBBEAN BASIN INITIATIVE

Senator **Kasten**. The private voluntary organizations have been lobbying hard evidently to get anywhere from a seventh to maybe up to a quarter of the Caribbean Basin Initiative dollars.

Are you aware of this, and do you support their effort?

Ms. **Bloch**. We are very much aware of it, and the executive branch is unalterably opposed because I think we all know that the Caribbean Basin Initiative is primarily for a fast disbursing purpose, and there are some emergency economic needs in that region. I am not an expert on that particular part of the world, but we are opposed.

Senator **Kasten**. There is some information, and I am not certain it is true, that there are even some people in the administration who have been, and this is second-tier and third-tier people, some of them career people who have been there for a while that are in fact lobbying on their behalf. I don't know if you are aware of this or not.

Ms. Bloch. I have heard rumors, but I have not been able to validate them.

### PRIVATENESS OF PVO'S

Senator Kasten. Can you define what a PVO is?

Ms. Bloch. A PVO is a private voluntary organization.

Senator Kasten. I am particularly interested in the word "private."

Ms. Bloch. We are equally concerned with the privateness of the PVO's we work with. I think you probably know that last December we had proposed a new regulation 3 in the Federal Register, where we would have made a 20-percent privateness test a requirement for registration. Twenty percent of the support for the international activities of any PVO working with AID and being registered, would have to come from private sources.

Now, approximately 1 week after we proposed this amendment, the Congress passed a Foreign Assistance Act, and there was also a 20-percent requirement, but it differed from our proposal.

Let me just mention there are two key differences. In our proposed amendment we would have required the 20 percent to be counted from funds that come from U.S. private sources. In the legislation, the statutory language states the 20 percent would be counted from any non-U.S. Government funds. So it is broader.

Also our proposal would have become effective when it was promulgated. PVO's that are already registered would have 3 years to reach the 20 percent. The legislation would not have this go into effect until January 1, 1985.

Senator Kasten. Let me make my point. I think we agree on this, except I have a hard time understanding an 80-20 split as being private, if it is 80 percent public. But we have the African-American Institute which is 84 percent U.S. Government; the Association for Voluntary Sterilization, 94 percent; the Asian American Free Labor Institute, 97 percent; Foundation for Cooperative Housing, 99 percent; New TransCentury Foundation, 100 percent; Opportunities Industrialization Centers International, 97 percent; and there is a whole list of these groups.

The American Institute for Free Labor Development is 96 percent; and Private Agencies Collaborating Together, 98 percent. I don't see by any stretch of the imagination how you can call these groups private. I think that there has to be a reasonable threshold, and in my opinion 50 percent makes a lot more sense than 20 percent.

I do not think that we should allow this to be phased in over a period of years. We can call them part of AID if we want, or whatever it is, but we should not be calling them private if, in fact, they are not.

Ms. Bloch. I think you make a very good point, but we have already gotten responses from our rulemaking, and the predominant response is negative. Most of the negative comments have come particularly from the cooperatives.

As for the organizations that you mentioned, I think a number are, in fact, more intermediaries of AID than PVO's. I think in the process we are going through we have to sort out which ones are really our intermediaries and which ones are truly PVO's. That is why we are going through this very intensive policy review.

But I would say that where you have no privateness test right now, going from almost nothing to 50 percent would be very difficult for many of these organizations. I think the 20-percent level was something that some congressional people had suggested as a benchmark. It is something that has been under discussion for many, many years.

Senator KASTEN. I think 20 percent is better than zero percent, or 3 percent or 4 percent as in some of the examples I have given, but you know we talk on the one hand of private organizations, that the private and independent character of the PVO is what makes them great, that they constitute an important unique resource, but 90 percent to 100 percent is funded by us. So there is not much of a private and unique character to them.

Ms. BLOCH. In principle I think that we agree. As I said, a number of the organizations fall in that high range of Government funding. They are really intermediaries and should be so identified.

I would also say that this privateness test also provides an incentive to generate nongovernment funding. We are moving toward cost-sharing measures, and I am very proud to say that in terms of these centrally funded matching grants they are all cost shared on a 50-50 basis.

There is a recommendation in our draft policy paper that says that we ought to be moving toward more cost sharing even in our operational program grants that are funded by the missions.

Senator KASTEN. We look forward to working with you as we go in this general direction. Thank you very much for your testimony.

### SUBMITTED QUESTIONS AND PREPARED STATEMENT

We may have additional questions for the record, and we would appreciate your responses. Your prepared statement will be inserted in the record following the submitted questions.

I am going to have to recess briefly to go and vote again, and will be right back.

[Recess.]

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### CARIBBEAN BASIN INITIATIVE

Senator Kasten: Let me return to the PVO activities vis-a-vis the Caribbean Basin Initiative.

Since it would appear that the PVOs are attempting to take action contrary to Administration policy, don't you think you should use your clout as a grant provider to simply tell them that either they cooperate with the programs and policies, or they will no longer receive any benefits from AID?

Mrs. Bloch: Having talked with a number of PVO leaders in the past weeks, our interpretation is that most PVOs are not against the basic idea of the Administration's Caribbean Basin Initiative. They are concerned about the absence of specific reference to their role as private, non-profit organizations and to the ESF focus rather than development assistance activities in the legislation. For example, one coalition of PVOs feels that the amendment should be supported because they believe that PVO activities in the Caribbean Basin would strengthen the CBI program.

With regard to our grant making authority, the purpose of these grants is to support the ability of PVOs to administer effective development programs within A.I.D.'s overall priorities and legislative mandate. Once AID has approved a grantee's proposal and the grant has been made, our exercise of authority in this area is generally limited to monitoring and evaluation of their performance and capabilities under the terms of the individual grants. As you are aware, PVOs cherish the independent nature of their organizations and policies. We are not in a position, nor would we wish to be, to dictate the policies of the individual private and voluntary organizations.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### REGULATION 3 PROVISIONS: 20% REQUIREMENT

Senator Inouye: Recently, AID proposed a revision of its Regulation 3, which sets forth policies and procedures for registration of agencies for voluntary foreign aid. The proposed revision stipulates that at least 20 percent of the funds for a registered organization's overseas program costs must be from private U.S. sources.

What is the present state of this revision? Has it been implemented?

Mrs. Bloch: Shortly after the publication of the proposed regulation, Section 123 of the Foreign Assistance Act was amended. It stipulates that after December 31, 1984, funds cannot be made available under several of the major functional accounts for programs of U.S. private and voluntary organization which do not obtain at least 20% of their total annual financial support for international activities from sources other than the U.S. Government. Under this formulation funds from host countries and other non-U.S. donor organizations would count toward the 20% requirement in addition to funds from U.S. private sources.

We have sought public comment and the advice of the Advisory Committee on Voluntary Foreign Aid on A.I.D.'s earlier proposed version and on the legislative standard. We expect to reach a final decision and to issue a revised regulation in the very near future after careful consideration of the many comments we have received.

Senator Inouye: Which private and voluntary organizations will be affected by this revision?

Mrs. Bloch: The attached list provides an assessment of which currently registered private and voluntary organizations would be affected by these revisions. However, we are now reevaluating the effects based on more current financial data from the PVOs and will be pleased to share a copy with you when completed later this summer.

## Preliminary List of Registrants Impacted by the Legislative and Proposed A.I.D. Regulation 3 Formulas
(February 1982)

| Registrants not meeting the legislated formula (*1) (based on currently available data). | Registrants not meeting the proposed formula (*1) (based on currently available data). |
|---|---|
| African American Labor Center, Inc. | African American Labor Center Inc. |
| African-American Institute (The) | African-American Institute (The) |
| African Medical and Research Foundation, Inc. | African Medical and Research Foundation, Inc. |
|  | Africare |
| Agricultural Cooperative Development International | Agricultural Cooperative Development International |
| American Institute for Free Labor Development | American Institute for Free Labor Development |
|  | America-Mideast Educational & Training Services |
| American Near East Refugee Aid (*2) |  |
| Asia Foundation (The) | Asia Foundation (The) |
| Asian-American Free Labor Institute | Asian-American Free Labor Institute |
| Association for Voluntary Sterilization | Association for Voluntary Sterilization |

Community Development Foundation

Community Systems Foundation

Consortium for Community Self-Help

Cooperative Housing Foundation

Cooperative League of the U.S.A.

Council of International Programs for Youth Leaders and Social Workers, Inc. (The)

Institutional Development and Economic Affairs Service, Inc. (IDEAS)

International Educational Development

International Eye Foundation

National Council for International Health (The)

National Council of Negro Women, Inc.

National Office for Social Responsibility in the Private Sector

New TransCentury Foundation

Community Development Foundation

Community Systems Foundation

Consortium for Community Self-Help

Cooperative Housing Foundation

Cooperative League of the U.S.A.

Council of International Programs for Youth Leaders and Social Workers, Inc. (The)

Institutional Development and Economic Affairs Service, Inc. (IDEAS)

International Educational Development

International Eye Foundation

National Council for International Health (The)

National Council of Negro Women, Inc.

National Office for Social Responsibility in the Private Sector

New TransCentury Foundation

| | |
|---|---|
| Opportunities Industrialization Centers International | Opportunities Industrialization Centers, International ✓ |
| Overseas Education Fund | Overseas Education Fund |
| Pathfinder Fund | Pathfinder Fund |
| | Planning Assistance, Inc. |
| Private Agencies Collaborating Together | Private Agencies Collaborating Together |
| Rav Tov Committee to Aid New Immigrants | Rav Tov Committee to Aid New Immigrants |
| Seventh-Day Adventist World Service, Inc. | Seventh-Day Adventist World Service, Inc. |
| Terra Institute | Terra Institute |
| Town Affiliation Association of the U.S., Inc. | Town Affiliation Association of the U.S., Inc. |
| Volunteer Development Corps | Volunteer Development Corps |
| Booker T. Washington Foundation | Booker T. Washington Foundation |
| | Wisconsin-Nicaragua Partners |
| World Federation for Medical Education | World Federation of Medical Education |
| World Vision Relief Organization (*3) | World. Vision Relief Organization (*3) |

(*1)

A. Until the revised A.I.D. regulation pertaining to the registration of agencies for voluntary foreign aid is issued, we do not have the precise data necessary to calculate for each PVO the percentages stipulated by either the legislative or proposed formulas. This is because the existing required reporting format does not call for all the required data necessary for such calculations. Once the final formula for measuring the 20% has been determined, registrants will be required to identify their overseas program costs and the proportion of such costs funded from non-U.S. government or U.S. private sources in a separate "schedule" attached to their annual audits.

B. Thirteen (8%) of the 156 registrants (as of February 1982) are not included in this survey either because data had not been submitted, or is not yet due.

(*2)

American Near East Refugee Aid (ANERA) appears only in the left hand column, because fund raising costs were included when calculating the impact of the legislated formula, but excluded when calculating the impact of the proposed A.I.D. Regulation 3 formula (in keeping with the proposal). If fund raisng costs had also been excluded when calculating the impact of the legislated formula, the percentages resulting from the legislated formula would have been equal to or higher than the percentages resulting from the application of the proposed formula. In which case ANERA would not have appeared on either list.

(*3)

In some instances, registrants receive substantial transfers of (or have access to) funds from related or parent organizations. This is true of World Vision Relief Organization. The fact that it appears on this list is, therefore, misleading since only modest sums were transfered during the period covered by the data.

## PRIVATE AND VOLUNTARY ORGANIZATIONS

Senator Inouye: AID's 1980 Report on Voluntary Foreign Aid Programs reveals that the New TransCentury Foundation received 100 percent of its funding from the U.S. Government; Opportunities Industrialization Centers International - 97 percent; Foundation for Cooperative Housing - 99 percent; AFRICARE, Inc. - 93 percent. I could go on.

In what sense are these organizations Private and Voluntary Organizations?

How can you say, "the private and independent character of PVOs, in itself, constitutes an important, unique resource for our total development assistance effort?

Do you really believe that any organization which is dependent upon the U.S. Government for 100 percent of its funding can retain any semblance of independence?

Mrs. Bloch: The term "private and voluntary organizations" is applied to a wide range of diverse organizations that exhibit "privateness" and "voluntariness" in a variety of ways. Among them, I agree that the percentage of funding from the U.S. Government is a major factor affecting these organizations' private and independent character. The 20 percent "privateness" test being proposed as a condition of eligibility for PVO-type grants reflects our recognition of the significance of this factor.

A number of these organizations serve more as AID intermediaries in their relationship with us than as PVOs in the traditional sense. As part of our current policy review, we have attempted to better identify such organizations for which assistance modes other than PVO-type grants may be more appropriate. Cooperative development organzations such as the Cooperative Housing Foundation constitute another group that does not fit entirely within the traditional PVO mold.

However, there are other important factors in consideration. Private character is directly affected by an independent Board and the internal decision-making process of an organization. Especially under a grant relationship, once agreement has been reached AID seldom enters into the day-to-day decisions of a PVO about program, personnel, logistics, field projects, etc. To do so would violate the private nature of the organization and defeat the advantages of working through PVOs to achieve American foreign assistance goals. In this sense, "the private and independent character of PVOs, in itself, constitutes an important, unique resource for our total development assistance effort." Experience demonstrates that PVOs cherish their independence and are persistent in seeking to diversify their sources of support.

For some PVOs, (AFRICARE is an example) the total privately contributed dollar figure obscures the breadth of a constituency of numerous small donors; and the low non-U.S. Government percentage does not adequately represent the extent of voluntary support. Furthermore, many PVOs leverage substantial funding for field projects, funds which do not pass through the PVOs' books yet represent a significant contribution to development activities.

Over the coming year AID will continue to examine its relationship with agencies which receive a very high percentage of funding from the U.S. Government. For some organizations and activities we plan to seek a contract or other non-grant relationship. Dependence is neither in the interests of the PVOs or of the U.S. Government. We continue to place high priority on the efforts of PVOs to seek private contributions.

## COST-SHARING GRANTS

Senator Inouye: I have been informed that AID may require that all grants to PVOs be made on a cost-sharing basis.

Has AID instituted this requirement?

Mrs. Bloch: We believe that cost-sharing should be broadly applied to PVO grants. We have moved increasingly in this direction. Most PVO programs funded by the Bureau for Food for Peace and Voluntary Assistance are already cost shared. A major portion of FVA's program is carried out through Matching Grants to PVOs which require at least a 50% PVO contribution. AID's draft proposed new PVO policy also suggests that a portion of the Non-U.S. Government support of operational program grants consist of a direct cash contribution by the PVO. AID will continue to fund activities with a number of private organizations which serve essentially as intermediaries for our program. Cost sharing may be less appropriate for activities of this type.

Senator Inouye: What improvement would result from adoption of this requirement?

Mrs. Bloch: Cost-sharing has multiple benefits. It:

- increases the amount of private money applied to development activities abroad;
- stimulates PVOs to put in more of their own funds into joint activities with AID, and thus increases their sense of commitment; and
- helps increase public involvement in development activities.

Senator Inouye: If PVOs are required to contribute a portion of their funds to an activity, would that not help to eliminate unsuitable or unnecessary projects?

Mrs. Bloch: While cost-sharing undoubtedly has a beneficial impact on project planning and implementation by increasing PVO participation, we believe that the quality of PVOs' projects supported by AID is best assured by the existence of sound PVO systems for project design, selection, monitoring and evaluation.

### OCEAN FREIGHT REIMBURSEMENT PROGRAM

Senator Inouye: The Agency is requesting $7.5 million for ocean freight reimbursement. Is this sufficient to meet the needs of PVOs for assistance in shipping donated goods abroad? What amount of funding has the PVO community requested from AID for ocean freight reimbursement in Fiscal Year 1983?

Mrs. Bloch: The $7.5 million level requested for Fiscal Year 1983 is not sufficient to meet the requests of the 35 PVOs participating in the Ocean Freight Reimbursement program. While AID fully supports the program, funding constraints and competing priorities within the Agency result in our inability to provide all of the almost $16.9 million these organizations estimate as their requirement for Fiscal Year 1983. We have devoted considerable time and attention over the past years to exploring ways in which the concerns that have been expressed regarding the ocean freight program could best be addressed. This has included extensive and numerous discussions with representatives of the PVO community in an effort to arrive at a more systematic alternative to the current method for allocating limited ocean freight funds. To date, however, no mutually acceptable alternative has been found. PVO demands are expected to continue to exceed funding availabilities given Agency funding constraints and priorities and constantly increasing freight rates. We will seek to maintain the strongest support possible for the program under these circumstances.

## QUESTIONS SUBMITTED BY SENATOR LEAHY

### PVO POLICY AND RELATION TO PRIVATE SECTOR ACTIVITIES

Senator Leahy: I understand that A.I.D. is now putting the finishing touches on a new policy governing its relations with U.S. private non-profit groups such as cooperatives and private and voluntary organizations (PVO's). Please describe briefly the thrust of the new policy.

Mrs. Bloch: In the past several months, A.I.D. has conducted a major review of its relationship with private and voluntary organizations (PVOs). The purpose of this review was to identify issues and make recommendations that will result in a more effective relationship between A.I.D. and PVOs. The Advisory Committee on Voluntary Foreign Aid is now considering the paper and the PVOs' reactions to it and will make its recommendations shortly. We will consider these views prior to our final approval of the policy statement.

The major goals of our policy are:

- to increase the economic development impact of PVO programs through increased program integration and focusing resources on field programs;
- to avoid undue dependence on U.S. Government financing of the international development programs of PVOs;

- to simplify management and administrative procedures to the maximum extent possible and create a strong focal point within the Food for Peace and Voluntary Assistance Bureau (FVA) to urge consistent implementation of PVO policy and broad information sharing within A.I.D. and with the community; and
- to insure that A.I.D. funds are used in ways which reflect our legislative mandate, yet do so in a way that calls into full play such unique possibilities of voluntary agencies as their knowledge of local situation and their programming and managerial flexibility.

Among the changes which are being proposed are the following: that increased emphasis be placed on country program integration in order to maximize the effectiveness of development resources in Third World countries; that a test for privateness be added as a requirement to qualify for the PVO grant program rather than a condition for PVO registration; that PVO grant categories and administrative relationships with A.I.D. are to be simplified, taking into account the diversity of the PVO community.

Senator Leahy: Please indicate the level of funds A.I.D. plans to use in FY 1983 for PVO activities. Will this represent the 12 percent of A.I.D. bilateral development assistance programs now required by law? Will any of the additional funds requested for private sector activities go to the private non-profit sector? Are any of the expanded private sector activities being done at the expense of the PVO's?

Mrs. Bloch: For FY 1983 A.I.D. has requested $204 million to support PVO programs. Of the requested amount, approximately $180 million will be funded from the earmarked Development Assistance (DA) accounts which include the five functional accounts, the worldwide disaster assistance account, and the Sahel Development Program. This constitutes 12.7% of A.I.D.'s total FY 1983 program request for these accounts. Since PVOs do not accept loan funds, they will actually be administering almost 18% of all grant funds in the DA accounts for 1983. Of the $22 million requested for the Private Enterprise Bureau in FY 1983, a grant of $4.9 million (22%) is planned to the International Executive Service Corps (IESC) in the private non-profit and private for-profit sectors. The strategy places high priority on mobilizing greater involvement of the entire private sector -- both U.S. and LDC -- in development, including greater reliance on private voluntary organizations. None of the planned private sector activities in FY 1983 will be done at the expense of the PVOs.

Senator Leahy: Do you feel that the PVOs have a contribution to make to our entire foreign assistance effort?

Mrs. Bloch: Private voluntary organizations (PVOs) are valuable members of the foreign assistance community, both as channels for effective use of U.S. assistance resources and as vehicles for bringing substantial private resources to the overall foreign aid effort. They have demonstrated a capacity for mounting direct people-to-people and self-help development initiatives abroad, consistent with A.I.D.'s mandate to meet the basic human needs of poor people. Their flexibility to act and their ability to innovate allow them to involve low-income people in the process of change. This is an important ingredient in the process of self-sustaining development which frequently is constrained in direct government-to-government assistance efforts. Recognizing the value of broadly based, participatory development efforts, A.I.D. works in partnership with PVOs in international programs for disaster relief, food distribution, operating overseas schools and hospitals, and development assistance in food production, rural development, nutrition, health, family planning, education, capital saving technology, renewable energy and small enterprises.

## PREPARED STATEMENT

Senator Kasten. Thank you, Ms. Bloch. We will insert your prepared statement in the record at this point.

(The statement follows:)

## PREPARED STATEMENT OF JULIA CHANG BLOCH

## ASSISTANT ADMINISTRATOR

## BUREAU FOR PEACE AND VOLUNTARY ASSISTANCE

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to appear before this Subcommittee on behalf of the Agency for International Development's centrally-funded programs. The Bureau for Food for Peace and Voluntary Assistance includes the offices of Food for Peace, Private Voluntary Cooperation and American Schools and Hospitals Abroad. As a separate hearing has been scheduled for the ASHA program before this Subcommittee on May 18, I will confine my remarks to the development assistance funded programs of the first two offices.

Since 1973, virtually every AID authorization has addressed the issue of U.S. Government support of PVOs. As Congress noted in the fiscal year 82 legislation, "an increasingly productive partnership between AID and the non-profit voluntary sector" has been established. AID's support for PVO programs has grown considerably since it began in the late 1940s, as has the support of the American private sector. In 1980, PVOs registered with AID raised $734 million from the private sector, as compared to $473 million in 1973.

Three tenets, reaffirmed by Congressional Committees and reports, underlie AID support for PVOs activities:

-- the participation of rural and urban poor people in their countries' development can be assisted through activities planned and carried out by PVOs;

-- the private and independent character of PVOs, in itself, constitutes an important, unique resource for our total development assistance effort;

-- the private American financial and human resources PVOs mobilize on behalf of the Third World, both for disaster and refugee situations and for long-term development efforts,

are of critical importance in dealing with global development problems.

Our request for fiscal year 1983 funding includes grants and other relationships with PVOs throughout the several functional accounts of our development assistance budget. Nearly 13% of AID's request for development and disaster assistance funds will be channeled through PVOs. In addition, PVO programs are funded from the American Schools and Hospitals Abroad Program, Refugee Assistance, the Economic Support Fund and through the AID-administered PL 480 program.

As you are aware, AID has been conducting a major review of its relationship with PVOs and is in the process of developing a policy designed to promote and facilitate a more effective relationship between AID and PVOs. The major objectives of this policy are:

-- to increase the economic development impact of AID-supported PVO programs;

-- to avoid undue dependence on U.S. government financing for international development programs;

-- to simplify management and administrative procedures to the maximum extent possible and reduce inconsistencies and ambiguities of the past; and

-- to insure AID funds are used in ways that reflect our legislative mandate, yet do so in a way that calls into full play the unique capabilities of PVOs.

For fiscal year 1983, AID is requesting $32.85 million for the centrally-funded grants program administered by the Bureau for Food for Peace and Voluntary Assistance to extend and strengthen PVO activities which meet AID's sectoral priorities. This request includes $12.8 million in matching grants, $7.5 million for ocean freight reimbursement, $5.3 million for consortia grants, $4.6 million for grants to the cooperative development organizations, and limited funding for the provision of management support services to private voluntary organizations. Most of these grant relationships will be on a cost-sharing basis.

This centrally-financed support to PVOs will enable them to carry out development programs in agriculture, rural development, nutrition, health, education and small enterprise as well as to support and strengthen the large number and variety of development activities undertaken by organizations indigenous to the LDCs. Since nearly all centrally-funded grants require an investment of the PVOs private resources, these programs represent a truly collaborative undertaking of the American private and public sectors.

Through its programs, the Bureau of Food for Peace and Voluntary Assistance will play a key role in the achievement of the objectives of the Agency's refined PVO policy. Two efforts now underway within the Bureau serve to illustrate this point. First, we are exploring new ways of linking the food resources distributed under Title II of PL 480 (the Food for Peace Program) with our central grants program to effect greater development impact. As an example, our matching grant with CARE links grant assistance for a reforestation and renewable natural resources program with food distributed in a Food for Work activity. Second, we are expanding the Bureau's information and support role to facilitate greater intra-Agency sharing of information on PVO programs and capabilities. Supportive of this effort, the Bureau has strengthened its evaluation function. Among such activities, we are sponsoring evaluations of PVO programs on a sectoral basis to improve our ability to generalize about PVO activities and to assist in policy formulation.

Our request also includes $750,000 in support of the Development Education program as directed by the Biden-Pell Amendment to the International Security and Development Cooperation Act of 1980. This Amendment authorizes AID to facilitate widespread public discussion, analysis and review of issues related to world hunger and poverty. Implementation of this program began in late fiscal year 1981 with the award of contracts to plan a series of media roundtables and to establish linkages with various educational associations to develop a proposed school curriculum project.

Three media roundtables are being held this year in Seattle, Washington; Milwaukee, Wisconsin; and in St. Louis, Missouri. However, the major program emphasis is the award of Development Education Project grants on a competitive basis, to private and voluntary organizations. These grants will support, on a cost-shared basis, projects designed to achieve the goal of informing and educating the American public on issues involving world hunger. Approximately 10 grants totaling $550,000 will be awarded this year. Our FY 1983 request will sustain the two major program initiatives, retaining our emphasis on matching grants to PVOs which facilitate broad public participation and imaginative educational approaches.

Throughout the policy development process we have and will continue to obtain the advice and recommendations of the PVO community. The result we seek is a collaborative and productive relationship with the PVOs, which takes into account the private interests and capabilities of the PVOs while enhancing their appreciation of the development context in which AID seeks to operate.

In addition to the preceding activities, our FY 1983 request will enable continuation of two development assistance-financed projects directly supportive of the Food for Peace program. Both projects are elements of AID's broader effort to increasingly utilize food aid resources in ways that enhance developmental impact of the Food for Peace program and foster its integration with other assistance activities. A total of $4.2 million is proposed for these programs in FY 1983 - $3.7 million for Title II Outreach and $500,000 for Food for Peace Program Support and Management activities.

The Title II Outreach project provides assistance to implementing PVOs in meeting the logistical support costs necessary to target PL 480 Title II programs to those areas and population groups most in need. This target population is the most costly and difficult to reach, often located far from the major population centers. Voluntary agencies and recipient governments frequently lack the resources to meet the full support costs necessary to carry out such programs. Moreover, sharp increases in energy and other costs have stretched existing financial resources, limiting the potential scope of nutritional and rural developmental programs associated with food aid and the ability of these programs to serve the very populations which need them most.

In this context, Outreach grants serve as a catalyst through the provision of short-term logistical and small material support for Title II programs with emphasis on the poorest countries. Support to date has been focused primarily on programs in Africa and Latin American countries. Outreach projects have been approved to date for programs in the following countries: Benin, Burundi, Djibouti, Kenya, Mauritania, Rwanda, Sierra Leone, Sudan, Togo, Upper Volta, Zaire, Haiti, Nicaragua and Indonesia.

The Program Support and Management project provides funding for a variety of activities designed to improve the effectiveness and impact of the $1.5 billion PL 480 program. It sponsors local and regional food storage seminars aimed at training host country, voluntary agency, World Food Program and AID participants in improved food handling and storage practices overseas. It finances regional workshops for personnel responsible for programming and administering PL 480 resources in the field, with particular emphasis on ways of achieving fuller integration of food aid with other development resources. It enables the provision of short-term technical advisory services to resolve problems associated with the Food for Peace program. Through this activity, research is carried out to improve the effectiveness of PL 480. For example, an assessment of an innovative CRS oilseeds processing project associated with Title II maternal and child health programs in four African countries is being considered and a commodity analysis study has been undertaken by the National Academy of Sciences. Finally, this activity finances an active schedule of evaluations to measure the effectiveness and impact of PL 480 programs as well as recommending changes to improve their developmental potential.

## BUREAU FOR PRIVATE ENTERPRISE

### STATEMENT OF MRS. ELISE R. W. DU PONT, ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT

### ACCOMPANIED BY EDGAR HARRELL, DEPUTY ASSISTANT ADMINISTRATOR

Senator KASTEN. The subcommittee will come to order.

Mrs. Du Pont, Pete, and I served together in the House, and I think we met once or twice, but I don't think we have met since you have been in this Bureau.

We are happy to have you here, and if you could briefly summarize your testimony, then you can respond to questions.

Mrs. DU PONT. I will be happy to do that. I will summarize my statement.

The Bureau for Private Enterprise was created less than a year ago, and it has two complementary objectives. The first is to strengthen the local private sector, and the second is to involve the U.S. private sector in this process.

#### BUREAU FOCUS AREAS

There are three major focuses for the bureau; those three areas are support services in private sector development, new methods of financing, and agribusiness-related activities.

In the first category of support services, we will be looking for ways in which we may support the host government and the U.S. private sector interested in investment by identifying and removing investment bottlenecks, building management and technical skills, and developing capital markets and financial structures.

In the second area in which we will be concentrating, we will be devising new methods of financing. These will include direct loans on an occasional basis to businesses, support of financial institutions, and capitalization of financial intermediaries.

In the third area, agribusiness, we expect to complement AID's work in agricultural production and research. In this area we expect to be involving ourselves in marketing and food processing work. The resources that we have had committed to this program we consider to be prudent and, in fact, modest in terms of funds and of people.

We ultimately expect to rely on the private sector to design and implement projects and to bring in its own funds. Thus we are expecting to leverage U.S. Government funds perhaps as favorably as on a ratio of $1 of U.S. Government dollars to $4 of private sector dollars, and we regard this as a very cost-effective way of running a program.

## BUDGET REQUEST

We view ourselves as a laboratory in which to experiment with new projects and approaches to be undertaken over the long term in the Agency. Our funds, therefore, as I indicated a moment ago, are somewhat modest. For fiscal 1982 as you are aware, we have $26 million within our own budget and an additional amount of regional bureau funds, approximately $100 million, which has been set aside for joint PRE/bureau programing for private sector purposes.

For fiscal 1983 we are requesting $23 million for our own purposes and again approximately another $100 million which would reside within the regional bureaus and over which we and the regional bureaus would have a joint program responsibility.

## NEW FINANCING MECHANISMS

As I indicated a moment ago, we view ourselves as a laboratory and in that capacity we are obviously different from other AID efforts. There are several ways in which we differ from what AID has done in the past. They are: new financing mechanisms, new financial intermediaries, new terms and conditions for loans, project development and policy.

In the first case, the new financing mechanisms which we expect to employ will include the use of convertible debentures and subordinant debt. We expect to be involving ourselves in participatory financing with U.S. banks and with other financial institutions. We expect also to be involved in direct lending to business ventures.

In the second category, the category of new financial intermediaries, we expect to use as intermediaries venture capital, leasing, and lines of credit and agribusiness with investment funded with indigenous and commercial banks.

In the third category, the terms and conditions of what we do will be somewhat different. We expect our terms to be more consistent with a free and open market philosophy.

The fourth area, the project development, we expect, and this is to be a highly cost-effective area, that we will have the private sector helping to develop the projects and contributing funds, taking part of the risks, and assisting in analysis of projects. This, of course, will reduce AID's administrative involvement and speed up the process.

In the fifth and final area, we expect to be addressing new policy considerations, and we expect to be aggressively concerned with the overall policy in host country governments.

So in conclusion, our program, we think, meets the critical and fundamental need of supporting all self-sustaining private enterprise that creates jobs, income, and upgrades skills in the developing world.

Our threefold thrust, agribusiness and support service and new methods of financing is committed to building and strengthening private enterprise on a more cost-effective basis.

Thank you and I welcome your questions.

[The statement follows:]

# PREPARED STATEMENT OF ELSIE R. W. DU PONT
ASSISTANT ADMINISTRATOR

BUREAU FOR PRIVATE ENTERPRISE

## INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I GREATLY APPRECIATE THE OPPORTUNITY TO PARTICIPATE IN THIS HEARING AND TO DESCRIBE THE ACTIVITIES OF THE BUREAU FOR PRIVATE ENTERPRISE, A.I.D.'s MOST RECENTLY ESTABLISHED CENTRALLY FUNDED BUREAU.

CREATION OF THE BUREAU LAST YEAR UNDERSCORED THE IMPORTANCE THAT A.I.D. ADMINISTRATOR PETER MCPHERSON ATTACHES TO THE NEED FOR A FOCAL POINT WITHIN THE AGENCY TO STIMULATE IMPLEMENTATION OF THE REAGAN ADMINISTRATION'S PRIVATE SECTOR INITIATIVE IN FOREIGN ASSISTANCE. THIS INITIATIVE FLOWS FROM THE CONVICTION, BASED ON PERSUASIVE EVIDENCE IN MANY THIRD WORLD NATIONS, THAT A VIGOROUS PRIVATE SECTOR ECONOMY CAN SERVE AS THE ENGINE FOR GROWTH AND PROGRESS IN DEVELOPING COUNTRIES JUST AS SUCCESSFULLY AS IT HAS DONE IN THE UNITED STATES AND OTHER DEVELOPED COUNTRIES.

## BUREAU "LABORATORY" ROLE

OUR BUREAU WAS SET UP AS A CENTRALLY FUNDED BUREAU SO THAT IT COULD PLAY AN AGENCY-WIDE ROLE AS A.I.D.'S LABORATORY, SO TO SPEAK -- TO INNOVATE AND TEST OUT NEW AND COST-EFFECTIVE METHODS OF FACILITATING PROJECTS THAT STRENGTHEN INDIGENOUS PRIVATE SECTORS IN SELECTED DEVELOPING COUNTRIES.

FIRST, WE SEEK WAYS TO MAKE LIMITED PUBLIC AID FUNDS STRETCH FURTHER BY ATTRACTING THE RESOURCES OF OTHERS, SUCH AS U.S. AND INDIGENOUS PRIVATE SECTORS, COMMERCIAL BANKS, INTERNATIONAL LENDING INSTITUTIONS. AN EARLY ACTION TAKEN BY THIS BUREAU WAS TO PROPOSE NEW POLICY APPROACHES THAT ALLOW US TO MAKE "SEED"-TYPE LOANS NOT TYPICALLY UNDERTAKEN IN PAST A.I.D. PROGRAMS THAT DRAW OTHER LENDERS AND INVESTORS INTO DEVELOPMENT PROJECTS AND INCREASE THE TOTAL EFFECT.

WE INTEND TO ENLIST THE U.S. PRIVATE SECTOR AS A MORE ACTIVE PARTICIPANT IN THE FOREIGN ASSISTANCE PROGRAM THAN IN THE PAST. JOINT VENTURES BETWEEN AMERICAN AND INDIGENOUS FIRMS, ASSOCIATIONS AND INSTITUTIONS, FOR EXAMPLE, SERVE ONE OF OUR PRIMARY FOCUSES ON DEVELOPMENT BY FACILITATING THE TRANSFER OF CAPITAL AND SKILLS TO THE THIRD WORLD AND YET OPEN UP OPPORTUNITIES FOR AMERICAN COMPANIES AS WELL.

ONE EXAMPLE OF THE KIND OF LEVERAGING, OR MULTIPLIER EFFECT, WE ARE SEEKING IS THAT OF THE INTERNATIONAL FINANCE CORPORATION. WHILE THERE ARE MANY DIFFERENCES BETWEEN OUR BILATERAL AID BUREAU AND THE MULTILATERAL I.F.C., THAT GROUP'S EXPERIENCE IN ATTRACTING NEARLY FOUR ADDITIONAL DOLLARS FOR EVERY INVESTMENT DOLLAR OF ITS OWN IS THE KIND OF RESULT WE ARE TRYING TO EFFECT.

SECOND, WE PLAN TO WORK WITH HOST GOVERNMENTS TO ENSURE THE FINANCIAL STRUCTURE AND INVESTMENT ENVIRONMENT NEEDED FOR PRIVATE ENTERPRISE TO FUNCTION EFFECTIVELY, AN OBJECTIVE WITH LONG-RANGE BENEFITS FOR U.S. INVESTMENT AND TRADE ACTIVITIES QUITE APART FROM SPECIFIC A.I.D.-SUPPORTED PROJECTS.

THIRD, SO THAT LIMITED FUNDS ALLOCATED FOR PRIVATE SECTOR ACTIVITIES ARE NOT SPREAD TOO THINLY, THE BUREAU FOR PRIVATE ENTERPRISE WILL BE ACTIVE IN JUST 10 to 15 DEVELOPING COUNTRIES THROUGH FISCAL YEAR 1983. EACH HAS BEEN, OR WILL BE, CHOSEN ON THE BASIS OF STRATEGIC AND COMMERCIAL IMPORTANCE TO THE UNITED STATES; EXISTENCE OF AN AGGRESSIVE PRIVATE SECTOR AND A HOST GOVERNMENT WILLING TO ENCOURAGE THAT SECTOR BY PROVIDING A POSITIVE CLIMATE FOR INVESTMENT; AND THE PRESENCE OF AN A.I.D. MISSION. THE PROCESS OF ASSEMBLING AND SENDING INVESTMENT RECONNAISSANCE TEAMS TO IDENTIFY SPECIFIC OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION IS WELL ADVANCED.

FINALLY, WE HAVE INSTITUTED STREAMLINED PROCEDURES UNDER WHICH ENTERPRISES OR LENDING INSTITUTIONS PROPOSING PROJECTS WILL HANDLE MUCH OF THE PAPERWORK AND DESIGN, THEREBY SHORTENING PROJECT LEAD TIME AND REDUCING A.I.D. ADMINISTRATIVE REQUIREMENTS. A STRICT CODE DRAWN UP SPECIFICALLY FOR THE BUREAU IS IN PLACE TO AVOID CONFLICT OF INTEREST SITUATIONS.

## INTERACTION WITH OTHER BUREAUS AND AGENCIES

WHILE THE BUREAU FOR PRIVATE ENTERPRISE ACTS TO DEVELOP NEW IDEAS AND METHODS, IT ALSO WORKS IN CLOSE COOPERATION WITH A.I.D.'s

REGIONAL BUREAUS ON OBLIGATION OF FUNDS AND PROJECT DEVELOPMENT AND IMPLEMENTATION SO FAR AS THE PRIORITY COUNTRIES ARE CONCERNED. ADDITIONALLY, ALL BUREAUS ARE UNDER NEW POLICY DIRECTIVES TO IDENTIFY AND DEVELOP WHERE FEASIBLE PRIVATE SECTOR PROGRAMS IN GENERAL.

A LEAN BUDGET AND STAFF CHARACTERIZE OUR OWN BUREAU STRUCTURE. FISCAL YEAR 1982 APPROPRIATIONS ARE $26.086 MILLION. THE 20 EMPLOYEES RECRUITED FROM CAREER RANKS AND THE PRIVATE SECTOR TO AUGMENT PERSONNEL IN THE HOUSING INVESTMENT GUARANTEE AND SMALL AND DISADVANTAGED BUSINESS OFFICE REPRESENT A REALLOCATION OF POSITIONS WITHIN EXISTING CEILINGS AND ARE NOT NEW EMPLOYEE POSITIONS.

AFTER CONSULTING WITH THE CONGRESS, ADMINISTRATOR MCPHERSON DIRECTED THAT APPROXIMATELY $100 MILLION IN EXISTING FISCAL YEAR 1982 FUNDS BE SET ASIDE IN THE BILATERAL A.I.D. PROJECT PORTFOLIOS FOR JOINT PROGRAMMING BETWEEN OUR BUREAU AND THE REGIONAL A.I.D. BUREAUS OF PRIVATE SECTOR ACTIVITIES IN THE PRIORITY COUNTRIES.

THE BUREAU ALSO PLAYS A STRONG COORDINATING ROLE WITH OTHER GOVERNMENT AGENCIES WITH DEVELOPMENT-RELATED FUNCTIONS. AS SUCH, SENIOR BUREAU OFFICIALS MEET REGULARLY WITH REPRESENTATIVES OF THE OVERSEAS PRIVATE INVESTMENT COPRORATION, THE TRADE AND DEVELOPMENT PROGRAM, THE EXPORT-IMPORT BANK AND THE DEPARTMENT OF COMMERCE TO REVIEW PORTFOLIOS AND MATTERS OF MUTUAL INTEREST.

## PROGRAM EMPHASIS

THE BUREAU HAS SELECTED THREE AREAS IN WHICH TO FOCUS. THEY ARE:

-- FIRST, AGRIBUSINESS, A HIGH SECTORAL PRIORITY IN MOST DEVELOPING NATIONS AND AN AREA WHERE A.I.D. HAS CONSIDERABLE EXPERIENCE.

AN EXAMPLE OF A PROJECT UNDER STUDY WITHIN THE BUREAU THAT FITS THIS PRIORITY IS A POTENTIAL DIRECT A.I.D. LOAN TO A SEED COMPANY IN AN AFRICAN COUNTRY TO ALLOW IT TO EXPAND RESEARCH AND SEED MULTIPLICATION, PRESERVE THE SEEDS, PROVIDE STORAGE AT THE LOCAL LEVEL, AND PROVIDE EXTENSION SERVICES TO SMALL FARMERS. WE ARE LOOKING AT THE POSSIBILITY OF PROVIDING $1 MILLION FOR THIS PROJECT.

-- SECOND, ESTABLISHMENT OF FINANCIAL INTERMEDIARIES TO FINANCE AND PROVIDE SUPPORT SERVICES TO VIABLE PRIVATE SECTOR PROJECTS.

AN EXAMPLE UNDER STUDY IS A $2 MILLION LINE OF CREDIT TO A COMMERCIAL BANK IN THAILAND, TO ESTABLISH A MATCHING FUND FOR ON-LENDING TO AGRIBUSINESS PROJECTS AND PROVIDE TECHNICAL AND MANAGEMENT ADVISORY SERVICES.

HERE, AGAIN, IS AN EXAMPLE OF USING A SMALL AMOUNT OF A.I.D. MONEY FOR A MULTIPLIER EFFECT. THE INTERMEDIATE INSTITUTION IN THIS CASE WOULD AT LEAST MATCH OUR CONTRIBUTION AND THEN ON-LEND, DRAWING IN YET ADDITIONAL PRIVATE SECTOR MONEY.

-- THIRD, SUPPORT SERVICES TO HELP PROVIDE AN ENVIRONMENT CONDUCIVE TO PRIVATE SECTOR ACTIVITY. THIS IS IN THREE AREAS: POLICY GUIDANCE TO HOST GOVERNMENTS ON REMOVING BOTTLENECKS AND ENHANCING THE INVESTMENT CLIMATE, ALLUDED TO EARLIER; MANAGEMENT AND TECHNICAL SKILLS TRAINING TARGETED TO DISCIPLINES NEEDED TO RUN A BUSINESS; AND ENCOURAGEMENT OF CAPITAL MARKETS AND DEVELOPMENT AND IMPROVEMENT OF OTHER FINANCIAL INFRASTRUCTURE MECHANISMS.

A POTENTIAL PROJECT IN THE FIRST CATEGORY IS A PUBLIC POLICY SEMINAR IN THAILAND FOR HIGH-LEVEL THAI PUBLIC OFFICIALS COVERING THE INVESTMENT CLIMATE IN THAT COUNTRY, INCLUDING REGULATORY PRACTICES AND EXPORT/IMPORT DUTIES AND INCENTIVES. WE ARE DISCUSSING THIS WITH THE YOUNG PRESIDENT'S ORGANIZATION, WHICH HAS EXCELLENT EXPERIENCE IN PUTTING TOGETHER THIS TYPE OF PROJECT.

IN THE SECOND CATEGORY, WE ARE DISCUSSING A PROJECT THAT WOULD BE UNDERTAKEN BY THE NATIONAL ACADEMY OF SCIENCES TO PREPARE STRATEGIES AND REVIEW SPECIFIC MANAGEMENT AND TECHNICAL TRAINING PROGRAMS IN SEVERAL COUNTRIES.

FINALLY, A PROJECT ILLUSTRATIVE OF CAPITAL MARKET BUILDING IS ONE UNDER REVIEW THAT WOULD LEAD TO ESTABLISHMENT OF AN INTERNATIONAL SMALL BUSINESS INVESTMENT COMPANY SERVING SEVERAL COUNTRIES.

THESE ARE ONLY A FEW EXAMPLES OF MANY PROJECTS THAT WILL BE FORWARDED TO THE CONGRESS IN THE WEEKS AHEAD IN LINE WITH OUR CONGRESSIONAL NOTIFICATION PROCEDURE.

## CONCLUSION

TO SUMMARIZE, THE BUREAU FOR PRIVATE ENTERPRISE IS OPERATING AS THE CATALYST IN A.I.D. TO PROMOTE THE PRIVATE SECTOR INITIATIVE THROUGHOUT THE AGENCY AND TO SERVE AS INNOVATOR IN WAYS TO IMPLE-

MENT THAT INITIATIVE IN A COST-EFFECTIVE, FLEXIBLE, AND EFFECTIVE MANNER.

WE WILL KEEP THIS COMMITTEE FULLY ADVISED AS OUR PROGRAM UNFOLDS AND WE WELCOME YOUR GUIDANCE AND SUGGESTIONS.

I WOULD BE HAPPY TO ANSWER YOUR QUESTIONS.

THANK YOU.

### SMALL NUMBER OF COUNTRIES AIDED

Senator KASTEN. Thank you.

On page 2 you talk about limiting yourself to 10 to 15 countries. Now specifically why are you limiting yourself to that small number of countries?

Mrs. DU PONT. Well, for two reasons, first as I indicated during my remarks a moment ago we consider ourselves a laboratory, and we would like to operate in the most appropriate environments in which to experiment and to innovate.

The second reason, I think, is because we are new, and we cannot move into every country immediately and start up a major thrust simultaneously in all of the countries that AID is servicing.

Senator KASTEN. Are you thinking of one or two projects in each country or 5 or 10 projects in each country? Once you pick the countries, and are you thinking of working with them and increasing the number of projects in those countries for the next 3 to 5 years, or are you thinking of sticking to one or two projects in each country and then extending the number of countries?

Mrs. DU PONT. I think the latter, although we have looked at different areas, such as the area of management training and capital market development and the area of agribusiness.

I would expect we would have a project in each one of those areas, ultimately in each of those target countries, and then as we do that we would expect to expand countries.

### COUNTRY PROGRAMS IN FISCAL YEAR 1982

Senator KASTEN. Do you have a list of the 10 to 15 countries that you will be active in in fiscal 1983?

Mrs. DU PONT. For 1983 we do not, but for fiscal 1982 we do have a list.

Senator KASTEN. Could you provide that?

Mrs. DU PONT. I can give it to you right now. It is Costa Rica, Jamaica, Indonesia, Thailand, Sri Lanka, Pakistan, Egypt, Zimbabwe, Kenya, and Ivory Coast. We may add to the list in the next few weeks, given the President's emphasis on the Caribbean Basin.

Senator KASTEN. If you missed one, you can provide that?

Mrs. DU PONT. Yes.

Senator KASTEN. Panama is not on the list, is that correct?

Mrs. DU PONT. That is correct. But it is obviously a country of interest to us and one we would like to begin considering in the near future.

Senator KASTEN. It might be in the second cut?

Mrs. DU PONT. Yes.

### AID AND EXIMBANK ROLES

Senator KASTEN. I think from the limited experience we have had, it is fair to say that your bureau has created a lot of significant and favorable interest around the world.

One overriding concern, though, relative to private sector initiatives, is the perception, especially in Singapore and countries in the Far East, that the Eximbank is retrenching, so therefore the talk of private sector supports is perceived as just more talk.

Now, are you aware of a feeling that the Eximbank is cutting back somewhat and are you being called upon to maybe fill some gaps there, or is that just something that we are hearing and that you are not aware of?

Mrs. DU PONT. We differ substantially in our approach from the Eximbank and therefore we should not be viewed, and it is erroneous to view us as moving into an area that the Eximbank might be in or would be in otherwise.

Because we are a development agency, we will be looking to the indigenous private sector in each of these Third World countries.

We will not be involved for the present in export financing. We will be looking at investment opportunities in the developing world rather than in trade opportunities for the developing world, so I think there are substantial differences between our two kinds of activities.

Senator KASTEN. But it seems we have mixed financing with some AID money and some Exim money for the Aswan Dam, and it didn't have anything to do with what you were doing, but more and more as we compete with the Japanese and French and we are starting to put together different layers or supportable layers just to compete with the predatory financing of the French, particularly.

So it seems that in some cases you will be involved with certainly an AID grant, won't you, or not?

Mrs. DU PONT. Well, I think the Administrator's position on that is that there may be other predatory financing situations similar to the one in Egypt under other circumstances, but they would be viewed on a highly selective basis and would have to be very developmentally related.

I think Peter McPherson would give primary consideration to doing that kind of thing in Egypt rather than anywhere else, at least in the beginning because of the size of the funds that are available in that country.

### INDEPENDENCE OF BUREAU

Senator KASTEN. After being in this job for about 1½ years, one of your main problems I would guess is going to be the bureaucracies in AID itself. You are a new, independent group, and you have the ability to cut and run and do things as you would want to.

It seems to me that AID is used to operating government to government, a lot of them are welfare type programs and programs that are heavy in bureaucracies and in overhead and administrative detail. Now AID in general is being asked to change its thinking and its decisionmaking relating more to the private sector.

Could you just comment on that? Is the bureaucracy going to be able to digest what you hope to do, or are you going to be gobbled up by all of that bureaucracy, thereby becoming inhibited in your ability to react and to deal with the private sector?

Mrs. Du Pont. Senator, we don't expect to be gobbled up by anything, much less the bureaucracy at AID, such as it is.

As I said during my remarks, we view ourselves as a laboratory, and as you indicated a moment ago, this does give us the opportunity to, as you termed it, "cut and run." Those are very favorable circumstances under which we can function.

In this first year we are learning how to coordinate our activities with the regional bureaus, and we have set up a number of very positive relationships with them. We review projects mutually, both our projects and their projects, and we hope the long-pull effect of all of this is going to be a private sector imprint throughout the Agency in which we hope that our fledgling bureau will have brought in its laboratory role.

Senator Kasten. Now, on an organization chart at AID, you are at the same level as the various regional bureaus, is that correct?

Mrs. Du Pont. That is correct.

Senator Kasten. Does that in fact work that way when you go into, let us say, Jamaica? Are you able to deal directly with the Jamaican private sector, or to what degree do you have to go through the AID division that has the responsibility for the Caribbean division or Latin American division?

Mrs. Du Pont. We are able to deal directly, but as a matter of courtesy we tend to work through the regional bureaus. In an organization the size of AID it seems only sensible to try to communicate and indicate our concerns to them, in as up-front a manner as possible.

Senator Kasten. But you can stick with your organization chart, in other words, and you do not have to go through the various regional group?

Mrs. Du Pont. That is correct.

Senator Kasten. You have a geographic function, and it seems to me those are not necessarily compatible?

Mrs. Du Pont. Yes.

## AID AND NAS

Senator Kasten. You talked about a project that you were discussing with the National Academy of Sciences or that would be undertaken by the National Academy of Sciences.

What is that project, and how is that institution qualified to work with you?

Mrs. Du Pont. That project would be to review management training opportunities in a selected group of our target countries. What they would do would be to pull together a group of businessmen who could do the review for us.

Because we are new and because this is our first year, we have, as I indicated a moment ago, a modest staff and modest budget commitment. Therefore we have had to look to an outside organization to help us in this which is a labor-intensive activity and help us to bring together a group of people who can review this kind of thing and help us set up this kind of a project in our countries.

Senator KASTEN. How were they selected? Did you put a criteria together and farm it out to private consultants, Arthur Andersen and Ernst & Ernst, and why is it the National Academy of Sciences? Is it sole source, did you bid it out, or under what circumstances were they selected?

Mr. HARRELL. It is sole source.

Senator KASTEN. Would you identify yourself?

Mrs. DU PONT. This is my Deputy, Edgar Harrell.

It is their character to be responsive to specific requests from the Government, and we have five consultant reports on management training opportunities in the countries, and the missions are very anxious to have that reviewed by a group of management training experts and consultants.

It is a group that the Academy can bring together quickly, whereas if we had to do it or go out to look for expressions of interest from various people it would take a lot longer. We don't have the staff to do that right now.

Senator KASTEN. Are you suggesting that the National Academy of Sciences on an ongoing basis has a management evaluation team?

Mr. HARRELL. No, this is a one-shot affair, and they will look at the particular reports that we have in from these five countries.

Senator KASTEN. And you look at this as not necessarily an ongoing relationship with the National Academy of Sciences? This is a one-shot affair?

Mr. HARRELL. This is a one-shot affair.

Senator KASTEN. I don't understand exactly why the National Academy of Sciences is the only one or the best one to do that. It seems to me if you are a private sector group, it would have been better to go to the private sector, but maybe there is a reason.

## COORDINATION WITH OTHER INSTITUTIONS

How are you relating to the institutions or programs which basically work with the private sector, for instance, trade and development program, Eximbank, and Commerce Department? Is this all folded in and are you trying to coordinate with them or are you finding yourselves alone?

Mrs. DU PONT. We have instituted about 2 months ago or 3 months ago now, a biweekly meeting with each of those groups, in which we have taken the lead and in which we review portfolios and opportunities and at which we made decisions on areas where we disclose decisions that have been made on areas of priority, so that we can make sure we are not duplicating our efforts.

This has been a very helpful manner to coordinate our activities.

Senator KASTEN. There are a couple of other questions that we will submit for the record.

Let me just say that we wish you well, and if there is anything that I can do or we can do to be of help, there is no question but this is the kind of direction that this administration and this subcommittee wants AID to go in. It is exciting, and I hope you are right that you are not going to be gobbled up by the bureaucracy, and you will have the opportunity to be flexible.

But we want to be helpful and if there is anything we can do to be of help please let us know.

Mrs. Du Pont. Thank you, Senator.

Senator Kasten. Thank you very much for testifying today.

### SUBMITTED QUESTIONS

That concludes this hearing for today. The record will remain open for 2 weeks during which time members may wish to submit questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### ASEAN NATIONS AS TARGET COUNTRIES

Senator Kasten: Subcommittee staff investigations found countries in Southeast Asia, particularly the ASEAN countries, would be likely candidates for your program. Do you agree, and are you active in those countries?

Mrs. du Pont: The ASEAN countries in general have environments (political, economic and legal) which are conducive to private enterprise development and growth. Overall, the climate for private investment is favorable in each of them. Of the four ASEAN countries,-three Thailand, Indonesia and Philippines-have bilateral aid programs, a prerequisite for Bureau for Private Enterprise financing. Currently we have potential projects and programs in both Thailand and Indonesia. The Bureau expects to undertake management and entrepreneurial training activities in both countries. We are also reviewing possible loan financing for projects in the two countries -- leasing and venture capital firms in Indonesia and an agribusiness fund through a commercial bank in Thailand.

### U.S. BUSINESS REACTION TO INITIATIVE

Senator Kasten: Could you give us some more specific examples of the reactions you have received from U.S. private enterprise to your program?

Mrs. du Pont: In general, reactions from U.S. private enterprise have been quite positive. Over the past several months we have been discussing the objectives and activities of the Bureau with U.S. business and trade associations. This has helped both U.S. private enterprise and the Bureau better define the appropriate role for U.S. private enterprise in the new initiative. As a result, we have begun to develop programs with prestigious U.S. business organizations which will benefit targeted developing countries through increased involvement by U.S. private enterprise. We are also beginning to receive proposals from U.S. companies for potential joint venture projects with businesses in LDCs. For example, we currently are participating in the financing of a feasibility study for an export trading company in the Caribbean proposed by a U.S. multinational agribusiness firm. The reaction from U.S. agribusiness firms to our program has been particularly encouraging for Indonesia and Thailand.

### WHEN RESULTS ARE EXPECTED

Senator Kasten: Since you are a new program, it is difficult to point at any successes -- or failures, for that matter -- and I wonder when you might expect the first results of this effort to be measurable?

Mrs. du Pont: While start-up has taken longer than anyone would have preferred, I believe we have acted prudently to assure the development of good projects and programs. In this regard we presently have several programs under way in "hands-on" business problem solving by American entrepreneurs in several of our target countries. We also have under review several business ventures and credit mechanisms which receive loan financing. Certainly by the end of this fiscal year, these and other programs and projects involving assistance in resolving barriers to investment issues and policies, and capital markets development will have been initiated and be well under way. Each of these activities will be development-oriented -- efforts like employment creation; foreign exchange savings; import substitution; technology transfer. As with more traditional AID projects, an underlying objective will be the improvement of the quality of life for the poor majority.

### INTERNAL AID RESPONSE TO INITIATIVE

Senator Kasten: What kind of response have you had from A.I.D.'s country mission directors on your program?

Mrs. du Pont: The response from A.I.D.'s country mission directors to the Administrator's policy directives calling for a reformulation of the A.I.D. program to incorporate significant private sector development assistance has been quite positive. With our limited resources, the Bureau for Private Enterprise is targeting its efforts on selected countries in an effort to act as a catalyst -- a laboratory for innovative programs and projects. In those countries, the A.I.D. missions and Ambassadors have been very responsive. The Bureau has received numerous requests for guidance and assistance in program and project development from other missions and in several cases the respective Embassy has requested that they be added to our target list. The Mission Directors and Ambassadors see our program as a means of encouraging the private sector in helping to carry out the development objectives of the country and the bilateral A.I.D. program.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### ENLISTMENT OF U.S. PRIVATE SECTOR

Senator Inouye: How, specifically, do you "intend to enlist the U.S. private sector as a more active participant in the foreign assistance program than in the past"?

Mrs. du Pont: There are several methods we are employing to enlist U.S. private enterprise participation in the foreign assistance programs. First, we have begun to develop programs with prestigious U.S. business organizations which will benefit targeted developing countries in several areas. For example, the Young President's Organization (YPO) will be organizing and conducting problem solving sessions related to entrepreneurial activities/ventures in several of our target countries.

We are also now managing the existing International Executive Service Corps (IESC) project. The IESC provides A.I.D. access to retired U.S. business executives to assist in solving problems for indigenous firms on a case-by-case basis. In addition, we are now working with the Columbia Business School to design an experimental, short-term (3-4 weeks), business education course designed to introduce A.I.D. officers to business decision-making concepts and philosophy. The Entrepreneurship Institute is working with the Private Enterprise Bureau and the Latin American and Caribbean Bureau to develop an "International Congress of New Enterprises" (ICONE) for the Caribbean area. This will bring together businessmen from the U.S. (and other selected developing countries) with those from the Caribbean interested in joint venture businesses.

The Fund for Multinational Management and Education (FMME) is conducting workshops in specific countries with a similar objective. Business International (BI) will be providing us with information and consulting services on the climate for investment and constraints thereto in each of our target countries.

The Business Council for International Understanding (BCIU) will be providing us assistance in putting together reconnaissance teams for future target countries.

We are working closely with groups of U.S. agribusiness firms in some of our targeted countries, as well as with the U.S. Chamber of Congress and its affiliated groups in our targeted countries.

In addition to those relationships with the Bureau for Private Enterprise, these organizations are being assessed by other bureaus in A.I.D. to provide services. For example, the World Trade Institute provides export promotion assistance to numerous A.I.D.-financed projects which have such requirements. With A.I.D. financing, Appropriate Technology International (ATI) is assisting micro-businesses in the transfer and marketing of technology. The Institute for International Development, Inc. (IIDI) is providing (through PVOs created in host countries) both loan and business advisory assistance to the formation of micro-businesses. Finally, the Bureau for Private Enterprise is in the process of mailing an announcement to U.S. agribusiness firms. This announcement, which was published in the Federal Register and Commerce Business Daily, outlines the Bureau's focus in the agribusiness sector and its interest in reviewing potential loan financing and other possible financial assistance, as well as joint venture business activities between U.S. and host country firms. The Bureau has established eligibility criteria which must be met for any project to be considered, including substantial indigenous private ownership in the venture.

We also published another announcement directed to the U.S. financial community, especially those institutions with branches in our targeted countries. We have invited those institutions to submit to us for consideration, projects which are both commercially viable and meet our eligibility criteria, but are not being financed due to the unavailability of medium term, fixed-rate financing. For such projects, the Bureau for Private Enterprise would consider participating in the financing by taking the longer term maturities, while the banking institution would assume the shorter term maturities.

## A.I.D. DEFINITION OF PRIVATE SECTOR

Senator Inouye: What does the term "private sector" mean in A.I.D.'s parlance? Does the private sector include U.S. state colleges and universities?

Mrs. du Pont: One of the principal objectives of the recently established Bureau for Private Enterprise is to promote more active involvement of the private sector -- both U.S. and developing countries -- in the development process in those countries being addressed by A.I.D. programs. In this context, private sector refers to:

-- U.S. private firms, either publicly or privately owned, and

-- Businesses in LDCs that are at least partially privately owned; that is, they are in business to earn a profit and are financed through earnings and their ability to raise capital in private markets (loan and/or equity).

-- Training institutions which serve the needs of the indigenous private sector.

Senator Inouye: Does it include PVOs which receive U.S. Government funding in excess of 50 percent of their budget?

Mrs. du Pont: This does not mean to imply that projects will not include LDC public sector involvement. However, that involvement will generally be as a vehicle to support the development of the local private sector. We would seek out opportunities to work with government-owned parastatals if they operate like a private enterprise and wish to turn over management and ownership to the private sector. In this context, also, we will continue to utilize PVOs(regardless of the public/private split of their source of funds), U.S. universities and cooperatives whenever their activities can complement A.I.D.'s in further promoting indigenous private sector development. The direct people-to-people approach to development which characterize PVO activities provides yet another vehicle to use in accomplishing our private sector initiative. Programs, therefore, might take many forms such as:

-- Assistance to intermediate financial institutions (which may be partially or even wholly financed by public funds) to provide financing for local private businesses.

-- Assistance to business ventures between U.S. firms and LDC private firms (alone or in participation with the LDC governments) where the U.S. firms may be providing capital, technology, know-how or management.

-- Modest financial support on a selective basis. The focus will be on working with local firms which are financially viable and able to attract private capital based upon earnings achieved and growth potential and which have or will make investments with high developmental impact. We expect that most if not all these firms will be medium and small scale.

## BUREAU ATTEMPTS TO IMPROVE HOST COUNTRY INVESTMENT CLIMATE

Senator Inouye: You say you "plan to work with host governments to ensure the financial structure and investment environment needed for private enterprise to function effectively." This is a monumental task. Even the IMF, with its vast resources, has great difficulty in getting LDC governments to change their policies. How do you plan to proceed?

Mrs. du Pont: In the area of host government policy environment and investment climate, we will work on two levels. First, where appropriate and when asked, we will develop programs designed for key policy-making officials of host countries. The purpose of these programs will be to make these officials aware of constraints to and modifications needed in laws, regulations and policies if private investment in particular sectors is to occur. We will target these on key sectors in the respective country. For example, because of the increasing importance of the energy sector in Thailand, we might agree to develop a policy-level seminar on that subject for key government officials.

We also will attempt to achieve policy change through projects. Where specific policy or legal constraints are identified which adversely affect a project which we are considering for loan financing, we will suggest having the particular constraint removed. This may involve a recommendation to change policy or the drafting of suggested changes in legislation.

We will also provide, where appropriate, direct assistance to the host government in drafting (or re-drafting) policies and legislation which are aimed at improving the climate for investment. The Bureau plans to provide advisory services on financial markets and strengthen capital markets. We are discussing advisory services in this area with the governments of Kenya and Indonesia.

## SENSITIVITY OF BUREAU PRIVATE SECTOR APPROACH

Senator Inouye: With regard to population planning assistance, A.I.D. officials frequently caution that the population issue has to be approached with great care and sensitivity, that A.I.D. cannot force countries to accept population programs. Do you intend to approach private sector development with the same care and sensitivity?

Mrs. du Pont: First, I do not believe one can really draw a comparison between population planning, which is one sector or program area, and the Agency's and the Bureau's private enterprise initiative which cuts across all sectors and represents an overall approach or strategy to achieving economic growth and development. It is the policy of this Administration and certainly the Bureau for Private Enterprise to aggressively pursue and support private enterprise development as an effective means of efficiently allocating resources and promoting growth and development. Wherever possible, we will actively encourage policies, laws and regulations and provide needed assistance to support this strategy. Such strategies will always be pursued consistent with the particular country's development objectives.

## TARGET COUNTRY LISTS

Senator Inouye: In which countries does the Bureau for Private Enterprise now have active programs? What criteria do you use to determine the existence of what you term "an aggressive private sector"?

Mrs. du Pont: Ten countries were initially targeted for the Bureau's efforts. Those were: Costa Rica, Jamaica, Egypt, Ivory Coast, Kenya, Zimbabwe, Indonesia, Pakistan, Sri Lanka, Thailand. Haiti recently was added to this list. We presently are developing programs (e.g., policy-level seminars, entrepreneurial and management training) and are considering for loan financing specific projects in several of these countries, including Thailand, Kenya, Indonesia, Jamaica, and Sri Lanka.

An aggressive private sector manifests itself in numerous ways including: (1) an active entrepreneurial class evidenced by numerous business start-ups and expansions; (2) an active interest in and out of government in developing an active capital market to provide financing services to these businesses; (3) business groups formed, or in formation, to bring their views to the public sector on the policy and the legal/regulatory environment required to help assure dynamic private enterprise growth; and (4) a government which, through its policies, creates an environment and investment climate conducive to private enterprise development and growth.

### ACTIVITIES OF RECONNAISSANCE TEAMS

Senator Inouye: In your prepared remarks I find the statement, "A Lean budget and staff characterize our own Bureau structure." In the past, I have found that a good test of a lean budget is whether or not first-class travel is utilized. When your "investment reconnaissance teams" travel, do they travel in first-class?

Mrs. du Pont: The Bureau for Private Enterprise's employees are bound by the general rules established by the GSA in the Federal Travel Regulations that prohibit first-class travel. In addition, the Bureau has not allowed, nor will it allow in the future, any private sector member of the reconnaissance teams to travel first-class.

Senator Inouye: Which countries have been visited by these investment reconnaissance teams?

Mrs. du Pont: To date we have sent reconnaissance teams to Sri Lanka, Indonesia, Thailand, Pakistan, Egypt, Kenya, Ivory Coast, and have sent several staff members and others to Jamaica. On each trip, our sector specialists (e.g., agribusiness, small business, capital market institutions, energy) have made conscious efforts to identify potential private enterprise investment opportunities outside the capital city. In the Ivory Coast, for example, both the agribusiness and energy experts took separate field trips to the interior of that country in search of potential projects.

Senator Inouye: Is a conscious effort made to get out of capital cities and to search for private sector opportunities in rural areas?

Mrs. du Pont: Projects are being developed to address needs outside urban areas. For example, two potential projects currently under consideration would establish funds within existing, commercially-managed financial institutions for on-lending through rural branches to agribusiness activities. In one case lending will be focused on enterprise outside the capital city.

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## QUESTIONS SUBMITTED BY SENATOR LEAHY

### A.I.D. PRIVATE SECTOR POLICY DIRECTIVES

Senator Leahy: In testimony before this committee, Mrs. Elise du Pont, Assistant Administrator of the Bureau for Private Enterprise, indicated that all A.I.D. bureaus are now operating under new policy directives "to identify and develop where feasible private sector programs in general." Please briefly summarize these directives.

Mrs. du Pont: The Agency recently issued a policy statement which provides guidance to the USAID overseas missions as they develop programs to implement our new private enterprise initiative. In addition, the Bureau for Private Enterprise has developed and issued a statement of its policy and objectives fully consistent with and designed to implement the objectives in the Agency policy statement.

Briefly, summarized, those objectives are:

(1) To assist in financing the establishment, improvement and expansion of productive, developmentally desirable private enterprises in priority sectors in developing countries in association with host country, local and international financial institutions and indigenous private investors;

(2) To bring together investment opportunities in developing countries with U.S. and host country capital and experienced management, thereby transferring technical, managerial and marketing expertise from the U.S. to the developing countries; and,

(3) To stimulate and help create the policy, legal and regulatory and capital markets environment conducive to the flow of both U.S. and host country private capital into productive investments in priority sectors in developing countries.

## STATUTORY AUTHORITY FOR NEW FINANCING APPROACHES

Senator Leahy: Also in testimony before this committee, Mrs. du Pont made reference to new financing approaches being considered by her Bureau, specifically convertible debentures and direct equity positions in private foreign companies. Could you please cite the legislative directive for such approaches? Are these approaches within the legal mandate of the Agency for International Development? How do these approaches reflect the basic human needs mandate of the Foreign Assistance Act of 1961 as amended?

Mrs. du Pont: Section 635 of the Foreign Assistance Act of 1961, as amended, sets forth the general authorities under which A.I.D. operates, including those pertinent to the acquisition of convertible debentures by A.I.D. According to this Section, A.I.D. may not directly purchase equity securities. A.I.D. does have the authority to purchase convertible debt securities and may convert them in limited circumstances if necessary to preserve A.I.D.'s investment. The use of convertible debentures which can be sold to private investors and then converted, is an important investment modality for supporting the development of an equity market and indigenous ownership.

We view this approach as being highly complementary to our basic human needs mandate. It is a market-oriented, rather than public-sector oriented approach to promoting national development and human progress. Through this approach, our programs will emphasize investments in high priority developmental sectors (e.g. agribusiness, alternative energy) which allow indigenous private enterprises to contribute to "basic human needs" through increased employment, productivity, and skill upgrading. This mechanism will allow us to provide assistance to such enterprises during their periods of highest risk and withdraw our participation once these enterprises become self-sustaining businesses. It is the self-sustaining contribution to basic human needs objectives that we want to emphasize.

## CRITERIA UTILIZED FOR AGRIBUSINESS ACTIVITIES

Senator Leahy: High priority is being given to agribusiness activities by the new private sector initiative, with $55 million in Section 103 monies designated for agribusiness. Please describe the criteria by which agribusiness projects are being selected under this new initiative. Are the uses of these funds compatible with the New Directions basic human needs criteria?

Mrs. du Pont: Project eligibility criteria have been established by the Bureau for Private Enterprise to help assure (1) the development of indigenous private enterprises and (2) significant developmental impact. While the $55 million applies to projects Agency-wide and not just those financed by funds from this Bureau, I believe it safe to say that these two are important criteria from an Agency-wide perspective.

First, any agribusiness project to receive financing consideration will have to demonstrate substantial indigenous, private ownership. Host country government participation, while not excluding a project from consideration, does not suffice to meet the private ownership requirement.

Second, all agribusiness activities will have to demonstrate developmental impact through one or more of several ways;

(1) Employment generation (firms, factory, or other indirect through provision of support services); (2) increased foreign exchange earnings through exports; (3) technology transfer; and (4) transfer of managerial and technical skills.

Third, the projects must be financially viable and well managed.

Projects meeting these criteria will enhance the ability of indigenous private enterprises to make substantial contributions to the accomplishment of the "basic human needs" objectives by providing goods, services and jobs, while simultaneously decreasing reliance on externally provided foreign assistance.

## HOW WILL THE BUREAU ENSURE SMALL AND MEDIUM SIZE BUSINESS INVOLVEMENT

Senator Leahy: A.I.D. private sector activities in the past have encouraged large-scale corporate investment. The Bureau for Private Enterprise has indicated that the new private sector initiative will give particular attention to small and medium size enterprises. In what way will the Bureau target their activities to assure involvement and benefits to small and medium size enterprise?

Mrs. du Pont: Several safeguards are being employed to help assure a focus on small and medium-sized enterprises. First, our participation in any given project will generally be between $500,000 and $2.0 million, with an absolute maximum of $2.5 million. We will not finance more than 25% of project costs.

Second, much of our project financing will be through intermediate financial/credit institutions -- which, through branch networks, will help ensure the ability to assess the smaller applicant for funds which A.I.D. could not identify directly. We will encourage these institutions to focus their efforts on small and medium-sized enterprises and opportunities outside the capital city. Also, projects over a specified size (to be individually negotiated by the Bureau and the institution) will be reviewed separately to assure that there is substantial development impact.

Also, because our financing is contingent on substantial, indigenous ownership, we are almost assured of receiving for consideration small and medium-sized potential projects. The indigenous enterprises and entrepreneurs in the targeted developing countries generally fall within the small and medium-sized business range.

Finally, we are working most closely with venture capital firms, leasing firms and indigenous commercial banks with branch offices. These institutions are the best private sector intermediaries to work with small and medium-sized enterprises.

### SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee stands in recess until Thursday, May 20.

[Whereupon, at 4:10 p.m., Thursday, May 13, the subcommittee was recessed, to reconvene Thursday, May 20.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, MAY 20, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met, at 2:05 p.m., in room S-146, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## DEPARTMENT OF STATE

### INTERDEPARTMENTAL GROUP ON TERRORISM

### STATEMENT OF AMBASSADOR ROBERT M. SAYRE, CHAIRMAN, INTERDEPARTMENTAL GROUP ON TERRORISM, DEPARTMENT OF STATE

### SUBCOMMITTEE PROCEDURE

Senator KASTEN. The subcommittee will come to order. This afternoon we will receive testimony from the State Department on three separate programs, starting with a new program, anti-terrorism assistance.

We will then receive testimony in support of the administration's request for its international narcotics program, and its refugee and migration assistance program.

We are expecting a busy day on the Senate floor, and that is one of the reasons we are in this room and not one of the rooms over in the Dirksen Building. I hope that we are going to be able to accommodate everyone that is here. It is also possible that we are going to have to go back and forth for votes upstairs, as we have the budget resolution on the floor. So, I hope that everyone will understand and try to work together.

It also will be helpful if the witnesses could summarize their statements so that we can then get on to the questions.

Our first witness is Ambassador Robert Sayre, the Chairman of the Interdepartmental Group on Terrorism. Ambassador Sayre, please begin. We will insert your entire prepared statement in the record, if you could possibly summarize it.

Welcome, we are happy to have you here, and we are looking forward to your testimony.

### OBJECTIVES OF ANTI-TERRORISM PROGRAM

Ambassador SAYRE. Thank you, Mr. Chairman. I would like to submit my statement on the antiterrorism program for the record and summarize it briefly.

The objectives of this program are to:

Enhance the law enforcement anti-terrorism skills of friendly countries.

Strengthen our bilateral ties with friendly countries by offering concrete assistance.

Senator KASTEN. You are going to have to speak up a bit because they are having trouble hearing you in the back.

Ambassador SAYRE. Strengthen our bilateral ties with friendly governments by offering concrete assistance in this area of great mutual concern.

Enhance cooperation in anti-terrorism with the developed countries by cultivating ties between their officials involved in combating terrorism and those in the U.S. Government.

Increase respect for human rights by foreign civil authorities by exposing them to modern and humane methods of effective preventive anti-terrorism techniques.

Enhance the ability of foreign governments to protect U.S. overseas missions from terrorist attacks.

Contribute to the safety of Americans traveling overseas by lessening the likelihood that they will be caught up in an act of international terrorism such as aircraft hijacking.

Under this proposal we would train civil and police authorities to respond to terrorist acts. Training would be offered in such areas as anti-terrorism precaution and incident management, hostage and barricade negotiations, airport anti-hijacking security measures, bomb disposal, and dignitary and facility protection.

Specifically, we are requesting amendment of the Foreign Assistance Act to authorize provision of anti-terrorism assistance of $5 million for this purpose in fiscal year 1983.

### NECESSITY OF ANTI-TERRORIST PROGRAM

Why does the administration consider the program necessary?

The number of international terrorist incidents has increased dramatically. There were 142 in 1968 and 709 in 1981.

Diplomats are increasingly a target, with an increase from 80 attacks in 1968 to 409 in 1981.

The United States has been the principal target. Europe has the highest level of terrorist activity, Latin America is second.

Some 91 countries have been the target of terrorist attacks.

### INTERNATIONAL COOPERATION

So, we are deeply concerned about the terrorist threat. This committee is already aware of what we are doing unilaterally to protect our own personnel and missions. International cooperation is also essential to an effective effort to combat terrorists, no one nation can do it alone simply because of the very nature of the problem.

Cooperation can take many forms, including the exchange of information; tighter control on the movement of weapons and explosives; more effective extradition procedures, and discouraging support for terrorist groups.

States with diverse forms of government in all parts of the world should share a common interest in eliminating terrorism by taking concrete steps to attain common goals.

We also believe that more direct cooperation is essential. Our proposal to provide anti-terrorism training and assistance is one type of cooperation. When terrorist incidents occur overseas, we look to the local government to discharge its responsibilities under international law, to protect all persons of interested government.

## TRAINING PROGRAMS

We propose to provide training for key civil officials. They would include senior police, civil aviation, immigration and other officials responsible for urban and national civil administration. It would include military officers seconded to civilian positions. We plan to concentrate, at least at the beginning of the program, on training of officials who are responsible for crisis management in participating governments.

Based on the participating government's evaluation of its own specific needs, we would provide more specific training for middle-management level officials. For instance, we could offer to train the actual hostage negotiator, the officer currently responsible for airport security, or the official who would be the onsite police commander for an incident such as the seizure of an embassy.

We intend to provide this training at existing Federal institutions in the United States, using the expertise of several domestic agengies. Primary facilities to be used are the FBI Academy at Quantico, Va.; the Federal Law Enforcement Training Center at Glynco, Ga.; and the Transportation Safety Institute at Oklahoma City, Okla. We do not plan to provide major training programs overseas or to assign advisors overseas permanently.

In addition to training, we plan to provide some related equipment to complement specific courses. For instance, passenger and baggage screening equipment for airports might be offered in connection with an airport security course.

As for the training program itself, we would provide this equipment on either a grant or sale basis, depending on the financial capability of the participating country.

While training and equipment would be offered primarily to countries which need to improve their capabilities, we will use this program to enhance cooperation with our friends and allies among the developed countries. With them, we hope to coordinate our efforts to assist Third World countries and to expand the sharing of information on terrorism.

## SELECTION OF PARTICIPATING COUNTRIES

A key question in the administration of this program obviously concerns the selection of participating countries. For the first year we intend to draw on a list of countries we consider to be likely participants on the basis of general criteria. We will consider countries which:

One, face a terrorist threat, actual or potential.

Two, are committed to participate in combating terrorism.

Three, wish to cooperate bilaterally with the United States against terrorism.

Four, have a human rights record compatible with U.S. legislative criteria for the receipt of the U.S. Government assistance.

We intend to consult with you on the list of countries which we believe meet these criteria. The program would be administered by the Department of State in a manner similar to training activities conducted in connection with the international narcotics control program.

We have transmitted authorizing legislation for this program under the International Security and Development Cooperation Act of 1982. The proposed legislation would authorize this program, notwithstanding the provisions of section 660 of the Foreign Assistance Act relating to the prohibition of police training.

Thank you, Mr. Chairman.

[The statement follows:]

# PREPARED STATEMENT OF HON. ROBERT M. SAYRE, CHAIRMAN
## INTERDEPARTMENTAL GROUP ON TERRORISM
## DEPARTMENT OF STATE

## Anti-Terrorism Training

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to testify on behalf of a new program which is a major element of the President's program to combat and deter international terrorism. Specifically, we are requesting amendment of the Foreign Assistance Act to authorize provision of anti-terrorism assistance authorization of $5 million for this purpose in FY 1983.

Under this proposal, we would train civil and police authorities to respond to terrorist acts. Training would be offered in areas such as anti-terrorist precautions, incident management, hostage and barricade negotiations, airport anti-hijacking security measures, bomb disposal,and dignitary and facility protection.

The program will:

-- Provide training courses in anti-terrorism skills for friendly, developing countries subject to a terrorist threat;

-- Provide limited amounts of appropriate anti-terrorist equipment to complement specific training programs;

-- Arrange training and information exchange on a reimburseable basis at U.S. facilities for officials of friendly, developed countries to enhance the sharing of anti-terrorism expertise as part of the President's overall program to combat international terrorism.

The objectives of this program are to:

-- Enhance the law enforcement anti-terrorism skills of friendly countries,

-- Strengthen our bilateral ties with friendly governments by offering concrete assistance in this area of great mutual concern.

-- Enhance cooperation in anti-terrorism with the developed countries by cultivating ties between their officials involved in combatting terrorism and those in the USG.

-- Increase respect for human rights by foreign civil authorities by exposing them to modern and humane methods of effective preventive anti-terrorism techniques.

-- Enhance the ability of foreign governments to protect U.S. overseas missions from terrorist attacks.

-- Contribute to the safety of Americans traveling overseas by lessening the likelihood that they will be caught up in an act of international terrorism such as aircraft hijacking.

Before I describe our proposal in more detail, let me outline the key considerations which have led the President to propose this important new initiative. There is a growing terrorist threat in the world today, which is graphically demonstrated by the following statistics:

-- The number of international terrorist acts --- violent crimes such as assassination, skyjacking, hostage taking, and bombings --- has increased from 142 in 1968 to 709 in 1981.

-- Attacks against diplomats have increased from 80 in 1968 to 409 in 1981.

-- The United States has been the principal target of international terrorist attacks; about 1/3 have been against American targets. Five American Ambassadors have been murdered in terrorist attacks, more than the number of US Generals killed in action in Viet-Nam. The murder of Colonel Ray in Paris and the kidnapping of General Dozier are two recent attacks against Americans.

-- Nor has American business abroad been spared. Between 1968 and 1980 there were 901 attacks against American business executives or facilities.

-- Other innocents have suffered both as targets, such as the infamous slaughter at Lod Airport in Israel, or as bystanders, as in the bombing of the Bologna train station in 1980.

-- Some 91 countries have been the target of international terrorist attack.

The statistics I have quoted relate to international terrorist acts, -- that is, they do not include terrorist attacks which have occured inside various countries against domestic victims. We have also experienced terrorist crimes in the U.S. committed by American terrorists, as well as attacks here by terrorists from other countries, usually directed against non-American targets such such as Turkish or Yugoslav diplomats resident here.

Today I would like to emphasize two aspects of the terrorist threat: its political significance and its international character.

The numbers of individuals who have been personally touched by terrorist acts --- those who have been killed, wounded, or kidnapped, and their relatives and friends --- represent a human tragedy. At the same time they represent a political challenge. In a sense most of these individuals were symbols, not targets. The purpose of their suffering, from the point of view of the terrorist perpetrators, was to influence someone else. The long-term challenge of terrorism is the effect it has on responsible governments and government officials. As Lenin once said, "the aim of terrorism is to terrify." The terrorist objective is to obtain or exercise political power by threatening and frightening, ultimately to intimidate, those whom he cannot influence in normal political ways.

The terrorist rejects the validity of the peaceful political process. He elevates violence to doctrine. He deliberately confuses means and ends and thereby threatens the framework of modern political society.

As serious a threat as this is to well established democratic governments such as ours, it is potentially fatal to developing countries and governments many of whom are still in the process of creating permanent institutions and stable democratic structures. The terrorist understands the fragility of such governments, and is well aware of the potential destructiveness of his actions. Terrorists set out to destroy existing structures and to frustrate efforts to build new ones.

A subject of intense interest today, involving some controversy, is the international character of terrorism.

The problem of terrorism has several international aspects. First, there are undeniable links between many terrorist groups. Whether these links are those of a tightly organized and controlled conspiracy or merely those of varying degrees of cooperation is being intensively investigated by the Administration. We know that among various terrorist groups there are exchanges of information, expertise, training, money, weapons, ideology, and general support. These connections seriously complicate the efforts of responsible governments to deal with terrorist acts.

Second, there are undeniable links between various terrorist organizations and governments. Libya, Syria, the People's Democratic Republic of Yemen, and Cuba have been identified as repeated supporters of acts of international terrorism. Such government support, as well as trans-national linkages, is a menace to the international community, and seriously complicates the efforts of responsible governments to control terrorism within their own territory.

Third, terrorists like criminals, cross borders, which makes it virtually impossible for a single government to deal effectively with the terrorist threat. Even if a particular terrorist group is completely unconnected with any government or other group, the movement of people and equipment between countries poses a serious practical problem for rsponsible governments.

Finally, terrorists have increasingly begun to attack target governments outside of their territories; for example by attacking diplomats resident in a third country. This tactic is certainly of international concern, because it poses a threat to the entire international diplomatic establishment.

President Reagan is deeply concerned about the terrorist threat and is determined to do something about it. United States policy in this area is multi-fold. We are taking unilateral policy steps against nations which support or abet terrorism. Libya is a current example. We are also increasing the security of U.S. diplomatic missions.

However, international cooperation is also essential to an effective effort to combat terrorism. No one nation can do it alone simply because of the very nature of terrorism. Cooperation can take many forms, including the exchange of information, tighter controls on the movement of weapons and explosives, more effective extradition procedures, and discouraging support for terrorist groups. States with diverse forms of government, in all parts of the world should share a common interest in eliminating terrorism by taking concrete steps to attain common goals.

However, we also believe that more direct cooperation is essential. Our proposal to provide anti-terrorism training and assistance is one type of cooperation. When terrorist incidents occur overseas, we look to the local government to discharge its responsibilities under international law to protect all persons within its boundaries. This includes protection from acts of terrorism.

This training program will directly assist other countries to better deter, prevent, and deal with terrorist incidents. It is with these thoughts in mind that we have developed the program we are presenting today. It is designed to further international effectiveness in combatting terrorism by assisting countries in fulfilling their share of that international obligation and in pursuing our common objectives.

Many countries are relatively ill-equipped to deal with this problem. Key civil officials, primarily those officials responsible for the maintenance of law and order, could benefit from our experience in dealing with this problem.

Acordingly, we propose to provide training for key civil officials of interested governments. They would include senior police, civil aviation, immigration and other officials responsible for urban and national civil administration. We plan to concentrate, at least at the beginning of the program, on training of officials who are responsible for crisis management in participating governments.

Based on the participating government's evaluation of its own specific needs we would provide more specific training for middle manager level officials. For instance, we could offer to train the actual hostage negotiator, the officer directly responsible for airport security, or the official who would be the on-site police commander for an incident such as the seizure of an Embassy.

We intend to provide this training at existing Federal institutions in the United States, using the expertise of several domestic agencies. Primary facilities to be used are the FBI Academy at Quantico, Virginia, the Federal Law Enforcement Training Center at Glynco, Georgia, and the Transportation Safety Institute at Oklahoma City, Oklahoma. All of the training we plan to provide to foreign participants already exists and is being given to Federal, State and Local officials and, in some cases, to foreign officials (notably the aviation security courses). We do not plan to provide major training programs overseas, or to assign advisors permanently overseas.

In addition to training, we hope to be able to provide some related equipment to complement specific courses. For instance, passenger and baggage screening equipment for airports might be offered in connection with an airport security course, and explosive ordnance equipment might be provided in connection with a bomb disposal program. The key consideration in the authority to provide equipment of this sort would be the direct connection with particular training, and would be designed to enable those trained to efficiently fulfill their responsibilities.

As with the training program itself, we would provide this equipment on either a grant or a sale basis, depending on the financial capability of the participating country.

We do not expect that the equipment part of our proposed program would ever take up a very large part of the over-all anti-terrorism cooperation budget provided for in this program. We do view it as an important supplement, designed to enable the participants to use the skills they learn in the training courses.

While training and equipment would be offered primarily to countries which need to improve their capabilities, we will use this program to enhance cooperation with our friends and allies among the developed nations. With them, we hope to coordinate our efforts to assist third world countries and to expand the sharing of information on terrorism.

A key question in the administration of this program obviously concerns the selection of participating countries. For the first year, we intend to draw on a list of countries we consider to be likely participants on the basis of general criteria. We will consider countries which:

1. Face a terrorist threat, actual or potential;
2. Are committed to participate in combatting terrorism;

3. Wish to cooperate bilateralally with the U.S. against terrorism; and
4. Have a human rights record compatible with US legislative criteria for the receipt of USG assistance.

We intend to consult with the Congress on the list of countries which we believe meet these criteria. In succeeding years, we would expect to provide Congress with an annual report of participating countries, plus a list of potential participants for the following year. I would like to emphasize that this program will be completely open and unclassified.

This program will be administered by the Department of State, in a manner similar to training activities conducted in connection with the International Narcotics Control Program. We intend to provide additional staff to the State Department's Office for Combatting Terrorism, which will be the focal point for the Department's management responsibilities. As I stated earlier, actual training will be provided, on a reimburseable basis, by other USG agencies which are expert in the required fields of instruction. Contact with potential participating countries will be through normal diplomatic channels.

We have transmitted authorizing legislation for this program in the International Security and Development Cooperation Act of 1982; this includes an authorization of 5 million in FY-1983, $ 4.6 million for the training and some equipment transfer and $ 400,000 for related management and administrative costs. We believe this is adequate for the first year. The proposed legislation would authorize this program, notwithstanding the provisions of 660 of the Foreign Assistance Act relating to prohibitions on police training.

We have formulated this program with due consideration to the concerns which led to the enactment of Section 660. This present proposal has been purposefully designed to deal with the specific problem of combatting international terrorism. We will not be training policemen as policemen. We will be attempting to assist threatened governments to make a more significant contribution to a world-wide effort in cooperation with us and other like-minded governments.

This Administration is convinced that present day political terrorism poses a serious threat to us, to our friends, and to organized international society. We believe that an international effort is necessary to deal with that specific danger. We do not intend to become terrorized by terrorists; instead, we intend to defeat them in cooperation with our friends. We believe it is in our interests to assist our friends with deeds as well as exhortation.

Thank you.

## RISK OF TRAINING POLICE

Senator KASTEN. One of the most controversial aspects of this request centers around concerns that such anti-terrorism training could be transferable to police-type units and used against the people of the countries that we are providing this assistance to. As you know, this is expressly forbidden by the Foreign Assistance Act.

What kinds of safeguards will you have to prevent this from happening?

Ambassador SAYRE. Mr. Chairman, we cannot guarantee that the training that is provided for the specific purpose of protecting against terrorism will not get transferred to individuals who use it for another purpose. I would not want to come here and say that we could do that.

We will want to train people on how you provide airport security; how you deal with a hijacking situation; how you deal with hostage negotiations and all those things. We are not attempting in any way to have a generalized police training program. But there is no way that I could assure you that an individual who has been trained in dealing with these kinds of things will not quit his job and do something else.

Senator KASTEN. I think the particular concern that some in Congress have expressed is what might happen after your experts leave, 6 months or 1 year after. Will you follow up on how these different units are operating?

You said that you are not going to have permanent people stationed overseas for an indefinite period—permanently, I think, is what you said in your statement. But you will have people in these various countries on an ongoing basis. Is that correct?

Ambassador SAYRE. Well, most of our Embassies around the world have a security officer who is concerned with these types of problems. We also have Defense Attachés and other people. Because we are focusing this training on things that are of concern directly to us—protection of our Embassies and so on—I think our people overseas will be watching what is done with the training. So, if your question is whether we will have some way to monitor the training after it is given and see if it produces the desired result, I think we will.

Senator Kasten. I was particularly concerned about monitoring the training after it is given to see that it is not diverted into other kinds of police-type activities.

Ambassador Sayre. Mr. Chairman, we will actually be following that because one of the reasons we want to do this kind of training is to improve international cooperation and also improve cooperation with us on the problems we have overseas. So, we are naturally going to be looking at it.

### SELECTION OF COUNTRIES

Senator Kasten. In your testimony you set out, I believe, four points, criteria which you will use to choose the countries.

Before this committee could approve funding for your program we are going to have to have some kind of a breakdown of country-by-country funding, given the controversy which is involved in parts of the program, at least.

I know you will understand the necessity for this country-by-country breakdown. Are you prepared to give us a list of countries and the dollars that will be requested for them at this time?

Ambassador Sayre. I cannot give it to you now because we have not discussed this with other governments until we find out how the Congress responds to the proposal. We do know that there are a number of countries who want this kind of assistance.

But I can assure you that before we begin anything we will come back to the Congress and consult with you on it, and tell you what countries we propose to give the training in, and basically what we propose to do.

Senator Kasten. I want to make sure we understand each other. I do not think it is going to be possible at least for this committee to approve the request for funding without prior to that approval having a list of the countries that are going to be served, and rough amounts as to how much would be spent in those countries. I think it is unlikely that we can approve the program and approve an amount of money with the idea that you then would come back to us and tell us how that money would be spent.

Ambassador Sayre. Well, we have already indicated to the authorizing committee the countries we think would be in the initial group. We have done that informally. We have not tried to break it down on the amount of money, though, but we can do that.

Senator Kasten. Can you provide that information?

Ambassador Sayre. I would prefer to provide it on a classified basis because if it will be provided on a public basis we are going to get ourselves into all kinds of difficulties with those that are not included in the program the first time. But we can provide you with that kind of information, yes.

Senator Kasten. We are going to need that information. Whether our purpose would be served by having it, as you said, on an informal basis or classified basis or not, I am not in a position right now to know. But it is clear that before we go forward we must have a country-by-country breakdown and a rough idea of the amount of money involved.

Now, the $5 million request, is this the only source of funding or are you requesting other funding from other sources for this program?

I believe at one point you were thinking about a revolving fund which they would tap for this program.

Ambassador **Sayre**. No, Mr. Chairman, this is the only source of funding. I know nothing about a revolving fund.

### TYPES OF EQUIPMENT

Senator **Kasten**. What do you mean by the term "appropriate anti-terrorist equipment?" You talked briefly about airport screening and other kinds of things. Do you have a list of the kinds of equipment you would be providing? Can you give us a sense of what is "appropriate anti-terrorist" equipment?

Ambassador **Sayre**. I can provide something on that for the record.

[The information follows:]

### Anti-terrorism Equipment

Samples of the types of anti-terrorism equipment we are considering for the commodity aspect of the anti-terrorism program are:

Walk-through metal detectors.
X-Ray machines for baggage.
Hand held metal detectors.
Badging systems for airport personnel.
Tool kit for bomb disposal squads.
Bomb carts for explosives disposal.
Body armor.
Mobile command post.
Communication equipment for terrorist incident management team.

### WEAPONRY USE

Senator **Kasten**. Do you mean weapons?

Ambassador **Sayre**. No, we are not thinking of weapons. We are thinking of things like airport screening equipment, equipment that you might use for bomb disposal and other items like that. We were not thinking of arms.

Senator **Kasten**. Your statement indicates that you will be arranging training and also information exchange on a reimbursable basis. Could you briefly describe that? In your formal statement you said something to the effect, "depending upon the ability of the country to pay." Is this the same as the reimbursable basis that you are talking about?

### PAYMENT FOR TRAINING

Ambassador **Sayre**. Some of the countries that have indicated they want training from the United States, we believe, would be able to pay for that training. Other countries that need it we know very well are not able to pay for it. Basically, on the ability to pay we would make a judgment at the time as to whether the country could pay all or part of the training costs. But it would be done on a case-by-case basis.

Senator **Kasten**. So, in some cases we would be reimbursed, and in some cases we would not.

Ambassador SAYRE. That is correct.

Senator KASTEN. Do you view this as a contractual arrangement with a country? In other words, we would go in and say, "We will do this training and it will cost that much;" how is that going to work?

Ambassador SAYRE. That is basically what happens, they come to us and say, "We know you can provide this kind of training. We would like to get it. This is the kind of training we would like to have." We would indicate to them at the time, "Yes, we can provide that kind of training but it costs so much."

Senator KASTEN. Now, in your view is there any limit to this aspect of the program?

Is there any limit to the amount of training that you would do on a reimbursable or a contractual basis?

Ambassador SAYRE. We are not thinking of a huge program here, Mr. Chairman. We are certainly going to be limited by the existing training facilities. We are going to be adding on to the existing training facilities of the U.S. Government agencies.

We have indicated that we think maybe there might be as many as a thousand trainees the first year. That is the order of magnitude we are thinking about.

Senator KASTEN. I am going to take a recess for about a minute and go and vote, and then I will come right back.

[Whereupon a recess was taken.]

## ADMINISTRATIVE COSTS

Senator KASTEN. The subcommittee will come to order.

According to your statement $400,000 of the $5 million is allocated for management and administrative costs.

Do you have a breakdown of that item for the record?

Ambassador Sayre. We can provide that.

[The information follows:]

### ADMINISTRATIVE COSTS

Of the $5 million requested for anti-terrorism program, $400,000 is allocated for management and administrative costs, broken down as follows:

| | |
|---|---|
| Personnel compensation: Five (5) full-time permanent | $180,000 |
| Personnel benefits | 17,000 |
| Travel and transportation of persons | 70,000 |
| Transportation of things | 6,000 |
| Communications, utilities, and other rent | 14,000 |
| Printing and reproduction | 3,000 |
| Other services | 87,000 |
| Supplies and materials | 8,000 |
| Equipment | 15,000 |
| Total | 400,000 |

This budget will cover all administrative and management costs of the anti-terrorism program.

## SALARY AND EXPENSE COSTS

Senator KASTEN. In particular, does that include salaries and expenses? Do salaries and expenses come out of your $5 million, or do the salaries and expenses come out of the regular salary and expense account of the State Department?

I think the answer is probably, both.

Ambassador Sayre. It was our intention, Mr. Chairman, that this program would pay the salaries and expenses of the personnel that are administering it. But it may be right that part of it will come out of the State Department. Right now the group that is preparing all the material for the Congress, of course, is coming out of the salaries and expenses of the State Department.

Senator KASTEN. You are going to have to speak up, the reporter is having trouble hearing, and I know people in the back are having trouble hearing.

How many people are involved in running the program right now in Washington?

Ambassador SAYRE. At the moment we only have two people who are working on the program besides my overall responsibility for it. We anticipate that there will probably be six or seven involved in total in the administration of the program in the State Department.

Senator KASTEN. Six or seven here?

Ambassador SAYRE. In Washington.

Senator KASTEN. And then in the field you have one or two of your people in each of these training centers?

Ambassador SAYRE. As a general matter we do not intend to have any people in the field, nor do we intend to have people at these training agencies. This is an interdepartmental committee and the other agencies of the Government, particularly the Treasury Department and the Federal Bureau of Investigation, and the Federal Aviation Agency, are all supporting this program. They are prepared to see that it gets handled through their experts in the field.

### U.S.-TRAINED FOREIGN PERSONNEL

Senator KASTEN. Now, we have in the past trained different kinds of security personnel and secret service people for foreign governments; is that not correct?

For example, I was recently in Egypt. It seemed to me from the way in which the Egyptian people conducted themselves with motorcades and whatever, it was obvious that they had some kind of training, assistance, or support from the United States.

Is that correct, and how would your program fit in with that training already going on?

Ambassador SAYRE. There was a major police training program run under the AID administration for many years, and it was terminated under section 660, I believe, in 1975. So, you may be running into some remaining aspects of that total training program.

But basically this type of training would be given under this program. Some other governments have, from time to time, asked for advice and assistance on these types of programs, but there is no other general way to do this.

In strictly an ad hoc matter the Federal Bureau of Investigation, for example, does admit a few foreign nationals to its police academy, but it is a very limited operation.

Senator KASTEN. So that the other departments involved in your interdepartmental group on terrorism would include AID and FBI?

Ambassador **Sayre**. No, it would not include AID because the AID no longer has any training in this field.

Senator **Kasten**. The FBI?

Ambassador **Sayre**. It includes the FBI.

Senator **Kasten**. Treasury?

Ambassador **Sayre**. The Treasury, the Federal Aviation Administration. Those are basically the training agencies. We would also expect to use agents of the Department's Office of Security for providing some training, specifically the types of training that they are capable of providing, protective security.

### FINANCIAL SUPPORT FROM OTHER U.S. AGENCIES

Senator **Kasten**. Now, with these other agencies and the support involved, the dollar value of that support—I am just thinking as an appropriator for a minute—the $5 million is for your interdepartmental coordination basically. They are going to be providing money to make their training centers work. In other words, what is the value and the form of the support which is being provided by these other agencies?

Ambassador **Sayre**. They will be reimbursed for the additional cost that they incur to provide this training. The $4.6 million, out of the $5 million, will be used to reimburse these other agencies for providing this training.

Senator **Kasten**. I see. The DEA is not involved, is that right, the Drug Enforcement Administration?

Ambassador **Sayre**. No, it is not.

Senator **Kasten**. That is not part of it.

I am personally anxious, and I think the subcommittee is anxious to try to work with you. I hope very much that we will be successful in including this in our appropriations.

There are going to be some additional questions. We have specific requests on the country-by-country breakdowns, and I hope that you can work with us. We will determine the degree of classification as we work this through.

### SUBMITTED QUESTIONS

I would be anxious to get that information as quickly as possible. Other members of the subcommittee may have additional questions. We will ask them to submit those questions to you in writing, and hopefully you can get back to us quickly with responses to those questions.

We thank you very much for your testimony here today and look forward to working with you.

Ambassador **Sayre**. Thank you very much, Mr. Chairman.

Senator **Kasten**. Thank you, Mr. Ambassador.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### ANTI-TERRORISM PROGRAM

Senator Kasten: As one of the objectives of the program, you list enhancing the "ability of foreign governments to protect U.S. overseas missions from terrorist attacks." Isn't this at least partially duplicative of other State and A.I.D. programs which have been started since the incidents in Iran and Pakistan?

Ambassador Sayre: The U.S. Government is pursuing a multi-pronged approach to combat international terrorism. The anti-terrorism assistance training program is an attempt to assist other governments by enhancing their own ability to deal with terrorist threats as well as improving our liaison with them. The program which was started after the Iran and Pakistan attacks, to which the Senator refers in his question, is a defensive program directed towards improving the physical security of our embassies and other overseas offices. We consider that these two programs, one improving the physical security of our missions and the other assisting the local government in improving their anti-terrorist capability, are complementary.

Senator Kasten: Why isn't this activity a multilateral activity, utilizing funds from many countries, rather than a U.S. bilateral program? After all, terrorism is an international problem, affecting many other countries besides the United States.

Ambassador Sayre: Establishing a multilateral program at this time would run into serious obstacles, not the least of them being the lack of an appropriate international forum or institution.

However it is the policy of this Administration to encourage international cooperation in the effort to combat terrorism and we hope to use this program to foster greater efforts by other countries. By assisting various governments in expanding their anti-terrorist capabilities, we hope to improve both their internal security and to draw them into increased international cooperation. We also hope to demonstrate to our developed country friends and allies our willingness to make a contribution to the world-wide struggle against terrorism and to ask them to coordinate (and possibly expand) similar programs they might have or be considering.

Senator Kasten: Have you approached any other countries who may be interested in contributing to such a program? If not, why not?

Ambassador Sayre: We have not yet approached any other countries regarding this anti-terrorist program as we have felt that, prior to Congressional consultation and amendment of Section 660, we lacked authority to do so. However, we intend to do so in the very near future and we hope to significantly expand coordination and cooperation in this area.

## Questions Submitted by Senator Inouye

Senator Inouye: Section 660 of the Foreign Assistance Act prohibits the Executive Branch from expending funds appropriated under that Act to provdie assistance to foreign law enforcement. Does the Administration intend to seek the repeal of Section 660? If not, will the Administration seek an exception from the Section for anti-terrorism assistance?

Ambassador Sayre: The Administration is seeking an exception from Section 660 which will permit us to implement an anti-terrorism training program notwithstanding the provisions of Section 660 relating to prohibitions of police training. Authorizing legislation for this program was submitted as a part of the International Security and Development Cooperation Act of 1982. Both the House Foreign Affairs and the Senate Foreign Relations Committees have acted favorably on the request, including the authorizations of $5 million in appropriations.

Senator Inouye: What assurances can you offer to satisfy Congressional concerns that this anti-terrorism assistance program may devolve into a "public safety" program of the sort which caused the Congress to enact Section 660?

Ambassador Sayre: To begin with, the Administration has formulated this program with due consideration for the concerns which led to the enactment of Section 660. Our present proposal has been carefully designed to deal with the specific problem of combatting terrorism and is directed towards civil authorities, including but not exclusively limited to police. In any case, we will not be training policemen as policemen.

We have located the management of this program in the Department of State, where it will be fully integrated with our overall foreign policy. This includes our legislative and policy concerns for human rights questions, for which we have made specific provision in our proposed authorizing legislation.

Finally, I should like to emphasize that this program will be completely open and unclassified, and under Congressional oversight to include annual budget and program review.

Senator Inouye: The Congressional Presentation Document providing justification for this program suggests that "some related equipment" would also be provided to complement the training. Will you provide the Committee a full listing of the types of material assistance which might be provided under this program. (Please be as specific as you can at this time, because any equipment not identified would be subject to our reprogramming process.)

Ambassador Sayre: While we are not yet in a position to provide a full listing, we are aware of general categories and of representative types of equipment. The equipment to be provided under this program will be directly related to specific training. An illustrative list is:

Airport security equipment (metal detectors, x-ray machines)

Bomb cart plus related equipment for bomb disposal squads.

Communications equipment for crisis management/terrorist incident management team.

Mobile command post.

Senator Inouye: Can you now assure the Committee that no lethal equipment will be provided under this program?

Ambassador Sayre: Yes, I can, Senator. No lethal equipment will be provided under this program.

Senator Inouye: Your estimate per-student cost for the training program is $3,900. Will the countries receiving assistance under the program be required to meet any part of this cost? If not, how will you ensure that the recipient countries make effective use of personnel trained under this program?

Ambassador Sayre: That figure is a current estimate supplied by the US Agencies which will do the training. We will assess each country's need and ability to pay on a case-by-case basis. We hope to encourage countries to meet the costs of this program from their own resources to the extent possible, but we are requesting appropriated funds for foreign assistance so that we may provide this training without cost to countries if needed.

We hope to ensure that recipient countries make effective use of personnel trained under this program by careful selection of prospective participating countries. One of the criteria for selection will be a commitment on the part of the government to combat terrorism together with a clear desire to work with the United States and other governments in joint efforts. Without such a commitment the training would be of little value; with it a high probability of effective use is likely.

Senator Inouye: I understand that this program is designed to provide assistance primarily to developing countries. Nonetheless, I believe it would encourage a commitment on the part of recipient governments to the success of the program if they were required to bear a modest portion of the cost. Do you disagree?

Ambassador Sayre: We believe that the primary assurance of the effective use of training provided for by this program will be the recipient government's commitment to the fight against terrorism. As I stated earlier, however, we agree that governments which can, should pay all or part of the training costs. We will approach this question on a case-by-case basis.

Senator Inouye: Will developed countries be required to bear the full cost of training and equipment for their participation in this program?

Ambassador Sayre: We consider this program an important vehicle to achieve cooperation among governments on combatting terrorism. The highest level of terrorism is in Europe. European agencies have a high level of expertise on combatting terrorism.

We plan to seek their cooperation in providing instruction on their experience, in consulting with students, and in some cases as students. We find that it improves immensely the cooperation on combatting international criminal activity--and terrorism is criminal activity--if civilian and police officials know each other and have worked together. That is one of the reasons that we have deliberately chosen our own law enforcement agencies to provide this training instead of setting up a separate operation. If a participant from a developed country is a student then we would normally expect his/her government to pay the cost. But if we are seeking their participation essentially on the training side, then we want to be able to do it on a reciprocal basis, or no cost basis. I understand, for example, that the FBI Academy regularly invites the participation of officials from other countries in their activities and handles it this way. We do not have in mind providing equipment to a developed country.

Senator Inouye: As I understand this proposal, training will be provided to foreign participants by personnel of several U.S. agencies. In view of the anticipated broad participation, may I assume the training will be conducted in English? Does this not introduce a self-selecting element in to the program? That is, is it not likely that candidates for training will be in the upper echelons of the civil service of recipient governments?

Ambassador Sayre: We expect to provide training in several other languages apart from English, certainly Spanish and French. This will enable us to reach a larger number of countries and a broader range of participants in those countries.

Senator Inouye: How will you ensure that candidates actually have a "hands-on" responsibility for anti-terrorist activities of their respective sponsoring governments?

Ambassador Sayre: While the selection of candidates is a responsibility of the participating government, such selection will take place in accordance with a training program designed by the U.S. Government in consultation with the recipient government. Program design will include trainee qualifications, to be confirmed by the resident American Embassy which will be our liaison with the local authorities. But beyond that, we plan to send advisers to participating countries for short periods, if the participating country desires, to followup on the training to see how it is being used. We also have Embassy personnel who will be able to observe the effectiveness of the training, for example, in the way the participating government handles airport security, responds to requests for the protection of Embassies or runs a detail to protect American officials. I thoroughly agree with the implication of your question that we have to do something more than classroom training to satisfy ourselves that what we are doing is effective.

Senator Inouye: I am certain you are aware that the Budget and Accounting Act (Title 31, US.C., Section 11 (A) (12) requires five-year projections of estimated appropriations required to finance new or expanded programs. What is the total of the five-year projections for costs associated with this program?

Ambassador Sayre: The five-year projection of estimated appropriations for this program is:

| | |
|---|---|
| FY 1983 | $ 5 million |
| FY 1984 | $ 8 million |
| FY 1985 | $10 million |
| FY 1986 | $12 million |
| FY 1987 | $15 million |

## BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

### STATEMENT OF DOMINICK L. DiCARLO, ASSISTANT SECRETARY OF STATE, BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

### CONTROL OF NARCOTICS PROBLEMS

Senator **KASTEN**. Our next witness is Mr. Dominick DiCarlo, Assistant Secretary of State, Bureau for International Narcotic Matters. Mr. DiCarlo?

Mr. **DICARLO**. Mr. Chairman, the assessment we offer the committee concludes that while progress has been made in international narcotics control, and certain efforts the United States has initiated are promising, the reality is that we are engaged in a long-term initiative to bring the narcotics problem under control.

The need for a constant effort is evident in recent developments. Peru has agreed to a program of coca eradication, but the prospects for a net reduction in cocaine production from the region could be partially offset by new coca leaf production in Colombia.

Southwest Asian heroin moved into the United States markets to replace heroin reductions resulting from the successful Mexican eradication program and the decline in Southeast Asian production. Now, after 2 years of drought, Southeast Asia has produced bumper crops, and we could see the market profile change again.

The market for Colombian marihuana is softening, but there is increased demand for sinsemilla from Jamaica and from domestic U.S. production.

The achievements in crop control and interdiction—and they are genuine improvements—have been marginal in terms of reducing worldwide availability of heroin, cocaine, and marihuana. However, recent developments are encouraging.

There has been continued progress in developing the anticoca enforcement capabilities for the crop reduction and trafficking control program in Peru's Upper Huallaga Valley, which was initiated in 1981, concurrent with USAID's 5-year rural development program.

In March, we obtained from President Torrelio a commitment to move rapidly on a coca eradication program in Bolivia. We are in the process of negotiating a plan for this program which, if successfully implemented, would reduce Bolivia's enormous coca cultivation to levels needed for legitimate purposes.

On February 4, Attorney General Smith announced the Project Tiburon had resulted in the seizure of more than 1.7 million pounds of marihuana at sea. Contemporaneous activities by the Colombian Navy, Coast Guard and National Police resulted in the seizure of an additional 4.7 million pounds of marihuana.

In January, the Royal Thai Government raided the base camp of the Shan United Army, the chief heroin trafficking group in the

Golden Triangle led by the area's principal narcotics warlord, Chang Chi-Fu. This action disrupted Golden Triangle production.

For the first time, the Pakistani Government eradicated opium poppy by forceful action in the "merged" areas where a United Nations Fund for Drug Abuse Control development project is in place. And, for the first time since 1978, the Pakistanis also shut down a heroin processing laboratory in the tribally-controlled portion of its northwest frontier province.

## CONTROL OF PRODUCTION

We are encouraged—but there is much more to be done.

The ultimate challenge is to control production at the source in all key sectors. Experience has shown that when reductions are achieved in only selected areas, such as Mexico, drugs from other markets will eventually fill the void. Moreover, production facilities, financial assets and the drugs themselves are highly mobile commodities which can be readily moved across national frontiers.

Progress in meeting this challenge will be achieved in stages over time. We believe that our policies and programs are consistent with achieving that ultimate objective of controlling production—and with the realities of the situation.

We are emphasizing through diplomatic channels that eliminating production of illicit substances, controlling production at legal levels and curbing trafficking are the primary responsibilities under international treaty of the producing and trafficking nations. We expect each of these nations to exercise such responsibilities through self-initiated control programs.

However, we recognize that because of political and economic considerations some countries cannot do the job alone, and we believe that the international community should assist those nations which require help.

The U.S. Government, therefore, supports a program of bilateral and multilateral assistance for crop control, interdiction and demand reduction programs, and we encourage other governments, especially the governments of other industrialized nations, to participate fully in these international control efforts—through their own bilateral programs or through international organizations such as the United Nations Fund for Drug Abuse Control.

As a major tenet of our international control policy the Bureau is applying more emphasis on crop control at the source in both our bilateral programs and in programs conducted by international organizations which we fund. And, our policy is that narcotics-related economic assistance to producer countries, whether rendered by the U.S. Government or by international organizations, should be conditioned on concurrent agreements on control of narcotics production.

While comprehensive crop control programs—our top priority—are not politically negotiable or operationally feasible in every producer country at the present time, the Bureau believes that eradication and/or crop reduction to legitimate levels should be the end objective sought in all negotiations.

Diplomatically, we must actively pursue opportunities to encourage other governments to invest in bilateral and multilateral programs, so as to insure that there are adequate programs in all major producer and transit nations.

Bilaterally, there is the challenge of taking maximum advantage of the new congressional authorization permitting the Department to enter into agreements with foreign governments for herbicidal spraying of marihuana crops.

Strategically, we must be cognizant of consumption factors in producer, transit, and consumer nations. Local consumption is very much a factor in our urging producer and transit countries to expand their control programs, and in our encouraging European nations to increase their program participation and support.

### SUPPORT FOR UNFDAC

A cornerstone of our effort to expand the number of narcotics control programs is our support for UNFDAC—our most important vehicle for multilateral programs because it can initiate programs in countries politically inaccessible to the United States; it complements our bilateral activities; it offers a worldwide vehicle for participation by other countries in international narcotics control programs, and its presence symbolizes that drug abuse and narcotics control are international priorities and not just American problems.

To continue its program of bilateral and multilateral assistance, the Bureau proposes a budget of $40 million for fiscal year 1983, including $30.2 million for direct country assistance programs in Latin America, Southeast Asia, and Southwest Asia. Our program is detailed in our prepared testimony and in our budget submission.

Finally, our diplomatic challenge is to raise international consciousness of this issue to a level where increased action by the affected governments and heightened acceptance of individual national responsibility become a reality.

In September, President Reagan said he would establish "a foreign policy that vigorously seeks to interdict and eradicate illicit drugs wherever cultivated, processed or transported." The President has communicated the U.S. priority on narcotics control to other national leaders. Vice President Bush is personally directing the anticrime task force in south Florida which is the focal point of the cocaine and marihuana traffic from South America.

The priority which Secretary Haig declared in his speech to the AFL–CIO executive council in February is evidenced in our diplomatic efforts; our Ambassadors increasingly press narcotics control issues with the leaders of host governments. The Ambassadors' role is particularly vital in those countries—usually narcotics producers—where we have programs. Secretary Haig and his senior deputies also advance this issue in their dealings with foreign leaders and in international meetings.

Thank you.

[The prepared statement of Dominick L. DiCarlo follows:]

# PREPARED STATEMENT OF DOMINICK L. DICARLO
ASSISTANT SECRETARY OF STATE

## BUREAU FOR INTERNATIONAL NARCOTIC MATTERS

MR. CHAIRMAN:

This testimony will provide the Committee on Appropriations a detailed explanation of the United States government's international narcotics control policy, the program strategy of the Bureau of International Narcotics Matters, the programs underway, and our plans for the coming fiscal year, as reflected in our budget proposal.

### POLICY AND PROGRAM COORDINATION

Before addressing the specifics of policy or program, I will describe for the Committee how policy and program strategies are developed, and the interactions between our Bureau and other agencies engaged in the international narcotics control effort, so that our policies and programs can be identified in appropriate context.

The Foreign Assistance Act (Section 481) established the United States international narcotics control function. The responsibility for these functions, conferred upon the President by law and upon the Secretary of State by Executive Order, has been delegated to the Assistant Secretary for International Narcotics Matters. Our Bureau of International Narcotics Matters develops policy; negotiates agreements relating to international narcotics control; coordinates the international narcotics activities of U.S. agencies; coordinates U.S. international efforts with domestic United States Government efforts; and is directly responsible for the effective use of Foreign Assistance funds authorized and appropriated for Bureau programs.

Within the Department of State, we cooperate closely with the Bureau of International Organization Affairs in our dealings with the United Nations drug control agencies and other international organizations. We collaborate with the Agency for International Development on economic assistance projects in narcotics producing countries. And, we integrate international narcotics control policies with global, regional and country policies through close collaboration with the Department's principal officers; the geographic bureaus and the narcotics coordinators in U.S. Embassies.

Other units within the Department of State are involved in negotiating extradition and legal mutual assistance treaties, with international financial controls as they relate to tracing financial assets used in or produced by drug trafficking, and with maritime and other international transport laws and regulations that relate to drug trafficking. And, external to the Department, there are a number of program initiatives under the operational control of the Drug Enforcement Administration and the Criminal Division of Justice; units within Treasury including Customs; units within Transportation including the Coast Guard; the Department of Defense and others.

Given the diversity of operational programs and agencies, there is need for policy and program coordination. There is considerable day-to-day interaction between our Bureau and other agencies, but there are also formal structures.

The newly-formed Cabinet Council on Legal Policy addresses legal policy issues involving interagency jurisdiction -- including narcotics, immigration and other issues. Secretary Haig is a member of the Council, which is chaired by the Attorney General.

Our Bureau is a member of the Oversight Working Group, chaired by Dr. Carlton Turner, the Director of the Drug Abuse Policy Office in the White House. These meetings bring together our Bureau, Defense, Justice (DEA and the Criminal Division), Treasury (Customs and enforcement sections), the Coast Guard and the National Institute on Drug Abuse to discuss policy issues and strategies.

Secretary Haig is a member of the South Florida Task Force on Crime, chaired by Vice President Bush. I am a member of the Working Group focusing on narcotics source countries in Latin America using transit routes through the Caribbean, the drugs and drug trafficking which impact upon South Florida.

Internally, our Bureau (INM) holds monthly working meetings with our counterpart agencies, such as DEA, NIDA, Defense, Customs, AID, the International Communications Agency, the Coast Guard and the CIA, to discuss ongoing projects, future activities, and the latest drug intelligence.

Cooperation also occurs at the program level. There are projects involving our Bureau and AID underway or being planned in Thailand, Peru, Pakistan and Bolivia. INM funds training programs administered by DEA, and Customs, and also interacts with NIDA and the Coast Guard on training and technical assistance. We cooperate on technical assistance with DEA in the field. And, we are cooperating with the International Communications Agency on information dissemination activities involving Peru, Jamaica, Colombia, Pakistan and Thailand.

In sum, the Department of State's senior officials, our Bureau and our colleagues in the Federal government, are attempting to ensure policy consistency, program efficiency and cooperation, and, to the extent possible, to ensure that we are addressing all aspects of the narcotics control problem.

## MAJOR POLICIES

The Bureau has developed four basic policies which govern our program strategy. These policies have been approved by the Department's senior officers, as evidenced in a statement which Deputy Secretary Stoessel has submitted to the Congress.

These policies are:

1. The major producer nations are all signatories to

the Single Convention on Narcotics Drugs, under which each country has the responsibility for controlling cultivation, production and distribution of narcotics to meet licit needs.

2. The international community should assist those nations which need help in controlling cultivation, production and distribution of illicit substances.

3. Crop control, which can be achieved through government bans, chemical or manual eradication at the source, or controlled reductions to legitimate quotas, is the most effective, efficient and economical means of reducing the availability of opium, cocaine, cannabis and their derivatives. Our corollary policy for the psychotropic drugs, which are controlled by a separate international convention, is to seek limits on imports and exports.

4. Narcotics-related economic assistance to producer countries should be conditioned on concurrent agreements on the control of narcotics production.

Our program strategy is based upon these policies and related strategic considerations. The principal considerations influencing program strategy are:

-- While there have been notable achievements in crop control and interdiction efforts, these successes in recent years have been marginal in terms of reducing worldwide availability of heroin, cocaine and marijuana.

-- Interdiction efforts, which include arrests, seizures of drugs in transit, and capturing of financial assets are not adequate in terms of worldwide effort, given current levels of production and profitability.

-- Comprehensive crop control programs are not now politically negotiable or operationally feasible in every producer country.

-- Both producer and transit nations are increasingly impacted by domestic drug abuse problems, as are the major industrialized, consumer nations -- factors which present improved opportunities for both control agreements and increased international support.

PROGRAM STRATEGY

The Bureau's program strategy is predicated on the ultimate objective of controlling production in all key geographic sectors, worldwide, of illicit drugs exported to the United States, so that significant and lasting reductions in availability are achieved. Our first priority is on crop control, i.e., the elimination of drugs at the source (or reduction to legitimate quota). Our second priority is on interdiction, i.e., trafficking enforcement. These priorities reflect the realities of worldwide levels of production of target drugs, and the realities of the number and complexity of trafficking networks.

INM is focusing increasingly upon control of drugs at the source, because the problems of interdicting drugs in transit are such that only a small fraction of the traffic can be seized. Producing facilities, financial assets, and drug products are highly mobile and cross many national boundaries. Experience has shown that when production declines in one area, drugs from other areas are moved into the market -- as was the experience with heroin three times in a decade.

But, however important the other strategic considerations, the critical consideration is that we cannot achieve worldwide control of cultivation and production in all key sectors on a near-term basis.

We are confronted by (1) the need to negotiate control agreements on a country by country basis; and (2) by the reality that each producer country presents a different set of complex issues to be resolved before crop control can be implemented and achieved.

While there have been notable successes in crop control, like Turkey and Mexico, and there are promising control efforts in Peru, Pakistan and Burma, which we are assisting, the first hard reality is that worldwide crop control is a long-term objective. The conditions which are considered ideal for mounting and sustaining an effective crop control program include: (1) an awareness of and acceptance by the central government of the national and international impacts of their domestic cultivation and production; (2) a strong central government which has the political will to enforce and (3) the capability to achieve control of the growing areas; and (4) adequate resources.

With their own resources and our assistance, Turkey and Mexico met these conditions. But, one or more limitations have to be overcome in other countries. Major opium producers like Iran, Afghanistan, and Laos are currently inaccessible politically to the United States. In other instances, like Burma and Pakistan, the central governments do not now have complete control over all the key growing areas. In certain countries, considerations of local economic and political impacts of crop control are such that alternative financial incentives, or control disincentives that create risk for the growers, producers and traffickers, or both, must be offered before an effective crop control program can be negotiated or implemented.

There is also the reality that progress will be achieved in stages. There is first the requirement to negotiate a collaborative assistance agreement with the producer nation, and we are still at that stage in some countries, such as Pakistan and Bolivia. Second, there is the need for the foreign government to implement the agreement, and we are still at that early program stage in other countries, such as Peru. Third, there is the containment stage, where the focus is upon ensuring that the problem does not reoccur or is at least held in check, and we are really at that stage only in Turkey and Mexico.

In developing our strategy as well as in our negotiations with producer nations, we are well aware that the financial incentives favor illicit drug cultivation -- and our strategy must include either alternative financial incentives, such as economic development programs, or, disincentives, such as arrests, seizures, forceful eradication and other control measures that increase the risks for the farmer and producer, or both incentives and disincentives.

The Bureau therefore pursues a program strategy that features both crop control and interdiction -- each strategy has proven potential -- and has obvious limitations -- with the priority given to crop control. Strategies are tailored to each country.

## DRUG OVERVIEW

Our program strategy is of course a reflection of the problems which we confront in controlling the cultivation, production, and trafficking in substances destined for the United States illicit drug markets. As a background for the discussion we are about to provide regarding our specific programs, we present this brief discussion of the supply reduction problem.

Heroin. Following a decline several years ago in the amount of heroin entering the United States, due in part to the successful Mexican opium poppy eradication program, cultivation appears to be increasing. By mid-1981, the success of a five-year poppy eradication and heroin interdiction program in Mexico cut the crop from 65 tons to less than 15, and reduced Mexico's share of the U.S. heroin market by 71 percent. There are now aerial reconnaissance reports of increased poppy production in Mexico, and growers have made eradication more difficult by shifting to smaller, widely scattered, and well-hidden fields. The Government of Mexico, however, has expanded its control program.

Two successive droughts significantly lowered Southeast Asia production in 1979 and 1980, resulting in steep price increases and the displacement of Southeast Asia heroin in both European and American markets. However, intelligence reports estimate that Golden Triangle production may have reached a record harvest of 600-700 tons in 1981, with estimates of an equally large harvest this year. Resource problems and the inaccessibility of much of the poppy cultivation area due to insurgency limit the effective scope of the Burmese narcotics control program. Although the commitment of the Government to eradication is sincere, the Burmese were able to destroy less than 10 percent of the crop.

Opium stocks in Southwest Asia continue to provide a relatively cheap source of heroin for U.S. and European markets. Drought, low prices and the government ban on cultivation reduced Pakistani production in 1980 and 1981 to a maximum of 125 tons. However, surplus stocks from a 1979 Pakistani harvest of 800 tons are considerable. Pakistani opium is refined in laboratories in the tribal areas of Pakistan and in areas along the Iran-Turkey border. Southwest Asian heroin fed the 1979 epidemic of narcotics abuse in Western Europe and then flowed into major U.S. cities, where it accounted for 60 percent of U.S. heroin abuse in 1980. Afghanistan's contribution to Southwest Asian opium production, while unknown precisely due to Soviet occupation, is significant. One estimate places Afghan opium production at 200 tons in 1980. Although severe opium laws have been enacted in Iran, it is questionable whether the present government can control opium production within its territory. Iranian opium production is estimated at 400 to 600 tons.

Turks, Pakistani, Iranians and Lebanese control the bulk of heroin shipments from the Middle East to Western Europe. Except for Turks, the same nationalities are also involved in exporting to the United States, although they are less dominant than the Franco-Italian syndicates. Turkey continues to be a major transit country for heroin but successfully controls diversion from its own licit opium cultivation.

Cocaine. The market profile for cocaine is undergoing some changes. Coca plants are still raised principally in Peru and Bolivia. But, Bolivia has emerged in recent months as an alternative center to Colombia for cocaine refining and trafficking. On the other hand, an estimated 3,000 hectares of coca leaf are now being cultivated in Colombia, which enhances Colombia's predominance in the world cocaine trade. Coca paste refined in Peru and Bolivia is primarily smuggled directly or through Ecuador to Colombia, where it is refined into cocaine, and transhipped to markets in the U.S., Latin America and Europe. Colombia supplies at least 50 percent of the finished cocaine imported into the United States. Colombian traffickers appear to be the best organized in terms of cocaine laboratory facilities, smuggling capability and distribution networks.

The value to the Colombia economy of cocaine trafficking and marijuana production is estimated to be in the range of $1 billion to $1.5 billion, and drug money is beginning to undermine the legitimate economy. The Peruvian Governemnt is attempting to control coca production and interdict trafficking, but success is offset by the easy accessibility of traffickers working out of or through Bolivia, Ecuador, Brazil and Colombia. Stocks of coca leaf in Bolivia and Peru are ample to produce cocaine for the U.S. and European markets into the foreseeable future without the competitive threat of Colombian coca cultivation. South Florida and Colombia are likely to remain the financial hubs of the cocaine trade.

Marijuana and Hashish. An estimated 9,500 to 14,000 metric tons of marijuana were imported into the United States in 1980. Colombia supplied 80 percent of this imported marijuana; however, major stocks of Colombianmarijuana remain unsold and prices have fallen. Marijuana (especially sinsemilla) has become a major export crop of Jamaica. Domestic production in the United States accounted for about 7 percent of the total market.

Lebanon produced 650 tons of hashish in 1980, making that country the world's leading source; Lebanon and Pakistan accounted for 90 percent of world production and exports of an estimated 970 tons. An estimated 200 tons of hashish entered the United States in 1980, and another 200 tons were exported to Egypt.

In summary, the need for a constant effort is evident in recent developments. Peru has agreed to a program of coca eradication, but the prospects for a net reduction in cocaine production from this region could be partially offset by new coca leaf production in Colombia. Southwest Asian heroin moved into U.S. markets to replace heroin reductions resulting from the successful Mexican program and the decline in Southeast Asian production. Now, after two years of drought, Southeast Asia has produced bumper crops and we could see the market profile change again. The market for Colombian marijuana is softening, but there are not only major stockpiles that could be directed to our country, there is also an apparent preference for the high-grade sinsemilla.

PROGRAM COMMITMENT AND METHODS

As a concerned member of the world community, and as a nation which has been severely impacted by drug abuse, the U.S. Government has maintained a program of bilateral and multilateral support and assistance in crop control, interdiction and demand reduction.

The Bureau's program objective is to assist foreign governments in meeting their treaty obligations. This objective is achieved through:

-- Bilateral assistance to support local initiatives by foreign governments

-- Diplomatic efforts to develop international support for multilateral activities in drug producing and transit nations, and, where possible, development of bilateral assistance programs by other countries

-- Participation in international organizations

-- Training programs which strengthen the enforcement capabilities of personnel in producer, transit and consumer nations

-- Guidance, coordination and support of other U.S. agencies engaged in international narcotics control

-- Coordination of international activities with domestic demand/supply reduction programs

-- Technical assistance in support of international demand reduction programs

## BILATERAL PROGRAMS

The Bureau's proposed budget for FY 1983 is $40 million, of which 75 percent is targetted for in-country programs. Almost half of our resources support activities in Latin America, with about a third in Asia. The balance supports inter-regional and international organization programs.

### Latin American Regional Strategy

The Bureau's strategy in Latin America is to assist producing and transit countries in stopping the flow of heroin, cocaine and marijuana, as well as other dangerous drugs. Beyond its continuing concern about the impacts these illicit drugs have on the American people, INM is especially sensitive to the fact that trafficking in marijuana and cocaine into the South Florida area has resulted in serious social and economic disruptions throughout that region.

INM has budgeted $18,450,000 for Latin American activities.

(Bolivia)

Intelligence sources estimate that Bolivia, which has an estimated 25,000 to 33,000 hectares under coca leaf cultivation, supplies approximately half of the cocaine consumed in the United States. Our activities in Bolivia have been minimal since the July 1980, coup which brought to power a military government with close ties to international cocaine traffickers. However, our activities in Bolivia may be expanded as the result of recent discussions with the Torrelio Government which assumed power in September, 1981.

I met with President Torrelio and other Bolivian leaders in March, and obtained from the President a commitment to move rapidly on a coca eradication program. Bolivian officials, assisted by U.S. Embassy personnel, are preparing a plan for a systematic eradication program. A proposed plan was received by INM on April 23 and is being evaluated by our staff. If adopted and successfully implemented, this action would over time reduce Bolivia's enormous coca cultivation to levels needed for legal production. The discussions in La Paz emphasized our willingness to support Bolivia in coca eradication, and we have agreed to provide funding for an experimental herbicide eradication program. The Government of Bolivia is aware that an effective narcotics control effort is the prime requisite for a resumption of U.S. economic assistance.

The Bureau is requesting a total of $1 million to support a Bolivian enforcement organization (DNSP) and a development organization (PRODES) to plan and implement a coca eradication and interdiction effort on the premise that the government will take concrete actions against illicit cultivation and cocaine refineries. These programs will not be undertaken unless a firm commitment has been demonstrated.

(Peru)

Peru is the other major source of coca leaf for the international cocaine market. The National Narcotics Intelligence Consumers' Committee reported in January that the estimate of Peruvian coca leaf cultivation has been increased to 40,000 to 60,000 hectares. The Government of Peru has cooperated in narcotics interdiction efforts, but, like other producer countries, faces the obstacles of corruption and inadequate resources.

While the Bureau's initial emphasis was on supporting enforcement activities, the major share of the current and proposed program is targetted on eradication. The major share of our $4,600,000 program request for FY 1983 is to support an eradication program in the Upper Huallaga Valley, which is purposefully complemented by a five-year AID-funded rural development project.

The Upper Huallaga Valley is the country's single largest source of illicit coca, with an estimated 17,000 hectares of coca cultivation. Our project therefore targets on the source for approximately 25 percent of the cocaine entering the U.S. The AID rural development project is the first in which the long-advocated strategy of coordinating the Bureau's support for enforcement with AID's development assistance is being implemented. The five-year AID project committed $18 million to finance a program of agricultural research and extension credits, and other developmental activities. Contingent upon budgetary considerations, INM plans to spend roughly $15 million on enforcement and eradication of illicit coca in the Upper Huallaga Valley and other areas of Peru over the same five-year period.

Traditional enforcement assistance is provided for the Peruvian Investigative Police, which concentrates on investigations in urban areas, and for the interdiction efforts of the Guardia Civil and Peruvian Customs. We are also supporting the development of the Mobile Rural Police (UMOPAR), headquartered in the Upper Huallaga. The objective is to have UMOPAR obtain the size and mobility, by 1983, to mount interdiction missions into other coca-producing and trafficking areas of the country.

The most recent reports from our Embassy in Lima show seizures in 1981 of 5,930 kilograms of coca paste, 44 kilograms of base, 122 kilograms of cocaine hydrochloride, and 26,807 kilograms of coca leaves. The Peruvian Investigative Police were reportedly responsible for 50 percent of the paste seizures, 75 percent of the base seizures, and 80 percent of the hydrochloride seizures. Enforcement by the Guardia Civil increased, with UMOPAR reportedly accounting for 30 percent of the paste seizures and 55 percent of the seizures of coca leaf.

Our assessment is that the Peruvian Government is attempting to control coca production and interdict trafficking and that this is a promising effort.

(Colombia)

The Bureau has provided $32 million through FY 1981 in narcotics control assistance to Colombia, including continuing assistance to the Colombian National Police, the Customs Service, and the Armed Forces in their coordinated support of cocaine, marijuana, and dangerous drug interdictions. INM has budgeted $3,600,000 for FY 1983.

The Turbay Government has demonstrated a commitment to interdiction and to the manual eradication of coca in successful campaigns conducted by the Judicial and National Police (which has deployed more than 1,000 men throughout the country in new anti-narcotics units since January 1981), and supported by the Attorney General's air wing and the armed forces.

In the last year, the Colombian Navy, Coast Guard and National Police seized an estimated 4.7 million pounds of marijuana. The special narcotics units of the National Police are stationed throughout the country, including keypoints in coca cultivation areas. With the mobility provided by U.S.-supported helicopters they have been moving effectively in recent months against coca cultivation, including the manual eradication of coca plants and the raiding of laboratories. Information received in INM indicates that, in a 25-month period, these units of the Colombian Government destroyed 125 cocaine laboratories. And, the information we have is that the Government destroyed 106,665 coca plants in all of 1980, but destroyed 237,000 plants in just seven months of 1981, and destroyed 608,000 plants in a single month, January of 1982.

In FY 1983, INM will continue to support these campaigns as well as interdiction activity by the Colombian Customs Service. In addition to commodities and support equipment, the training component of the project is designed to complete the objective of making the Customs Service self-sufficient in effective narcotics interdiction.

The Bureau recognizes that, when consideration is given to countries wherein we might make use of the renewed opportunity for herbicidal spraying of cannabis with paraquat, mention is usually made of Colombia. We discuss the issue of herbicidal spraying in another section; suffice for the immediate discussion of Colombia to note that the Bureau is especially sensitive to opportunities to assist governments in herbicidal spraying projects. However, before such assistance is given, the Bureau must satisfy certain legal requirements, including an assessment of environmental impact on the health of Americans as well as on any country taking this action.

(Ecuador)

The country is important as a trafficking link for coca derivatives and cocaine moving from Bolivia and Peru to Colombia. INM has provided commodity and training support to the Customs Military Police and the National Police. In September, 1980, a program agreement was signed with the newly-formed National Directorate for the Control of Illicit Narcotics (DINACTIE) in the Attorney General's Office. Whereas the assistance to the police is for coca interdiction programs, the funds provided to DINACTIE include both drug abuse education support funds as well as interdiction support. Total support for Ecuador is budgeted at $400,000 for FY 1983.

(Brazil)

Since 1979, Brazil has shown evidence of becoming an important cocaine transit country and is the principal source for acetone and ether used in cocaine refinement in Bolivia. Rather sophisticated drug distribution networks move coca derivatives from Bolivia to Colombia or cocaine through Brazil for ultimate sale in the U.S. and Europe. INM signed an agreement with the Federal Police in September, 1981, which provides relatively modest support for interdiction operations aimed at disrupting trafficking at selected key border areas, areas not otherwise receiving adequate enforcement attention and where trafficking directly affects U.S. markets. The agreement provides the Federal Police with updated communications equipment and operational support for their border patrols; $250,000 is budgeted for Brazil in FY 1983.

(Mexico)

The narcotics eradication program undertaken in cooperation with the Mexican Attorney General's office has been the Department's largest international narcotics control initiative. Over a 10-year period, the United States invested more than $95 million of international narcotics control funds in this joint venture, but the Mexican Government increasingly spent more -- and last year was spending four dollars to every U.S. dollar.

The key to the success of the campaign was the decision of the Mexican Government to use aerial crop dusting techniques employing herbicides (manual eradication has proven inadequate). At this high point in the effort, some 10,000 hectares of opium, which could have produced 10 tons of heroin, were destroyed. The program reduced the Mexican share of the U.S. heroin market from a high of 87 percent to 25 percent by 1980, when the NNICC estimate was about one metric ton of Mexican heroin was entering the United States. Recently, when there were indications of expanded cultivation in Mexico, the Government increased its eradication effort.

With the exception of a pilot safety training program, the bulk of FY 1983 U.S. support for the Mexican program is for the opium eradication airfleet. Nearly $7,500,000 is required to maintain and operate the 87 aircraft used in this eradication progrm.

- (The Caribbean)

Trafficking routes for at least 75 percent of the cocaine and marijuana, and a major portion of the illicitly produced dangerous drugs entering the United States pass through the Caribbean. INM seeks to encourage and support interdiction efforts by Caribbean governments through diplomatic initiatives, direct assistance or training, and an improved environment for activity by U.S. enforcement agencies.

The Bureau is planning to develop a system of real time communication among the narcotics enforcement organizations in the Caribbean and Central America. The system, using either satellite-connected telephone circuit or shortwave radios, will operate in both Spanish and English to allow a rapid exchange of intelligence.

An opportunity developed this year to assist the Haitian Government in developing an effective maritime narcotics interdiction capability. U.S. support has included assistance by the U.S. Coast Guard in rehabilitation of Haiti's patrol fleet, training of boat maintenance personnel, and operational support of sea interdiction patrols. Information developed by these patrols is provided to U.S. Coast Guard vessels in the area. The ongoing program in the Caribbean will seek to provide patrol and other craft for the cooperating police and enforcement authorities in other key transit countries.

Jamaica is important to the developing strategy in the Caribbean because it is not only a major stopover for traffickers but is the only significant narcotics producer in the area -- approximately 10 percent of the marijuana consumed in the United States is estimated to be of Jamaican origin. The Deputy Secretary of State recently discussed with Jamaican authorities U.S. interests in Jamaica narcotics control and our Ambassador seeks to identify the proper timing for an eradication and interdiction project.

INM has budgeted $900,000 in FY 1983 for these regional narcotics activities.

Southeast Asian Regional Strategy

As a result of the excellent growing conditions for poppies in 1981, the production of opium from the three countries of the Golden Triangle (Thailand, Burma and Laos) rose from an estimated 200 metric tons in 1980 to an estimated 600-700 metric tons in 1981, with 1982 production equal to or exceeding 1981. Southeast Asian heroin accounted for an estimated 15 percent of heroin entering the United States in 1980. Since most of the producing areas in Burma are not accessible to that Government, and collaboration with Laos is not feasible, U.S. resources are concentrated on eradication and interdiction of opium and heroin -- chiefly on the Thai-Burma border. INM has budgeted $7,700,000 for programs in East Asia for FY 1983.

(Thailand)

Virtually all of the Golden Triangle's heroin passes through Thailand en route to world markets. Thailand is not only the major transit country, but a producer as well, and, with its large addict population, its domestic consumption also sustains trafficking organizations.

The Bureau's strategy is (1) to support Thai actions against the refining and trafficking organizations; (2) assist in opium cultivation control; (3) enhance overall Thai narcotics enforcement; and (4) develop a Thai consciousness and response to its own narcotics abuse problem. INM has budgeted $2,300,000 for Thailand in FY 1983.

The assessemnt of the Thai program is mixed. In January, the Royal Thai Government took forceful action against the dominant opium refining and trafficking organization, the

Shan United Army led by Chang Chi-Fu. And, there has been a decline in the availability of precursor chemicals (e.g., acetic anhydride) used to refine opium into heroin, as a result of Government efforts. The reports indicate that the amount of acetic anhydride reaching the northwest border refineries has dropped significantly while prices have increased. Refineries are reportedly having more difficulty in converting their bumper stocks of raw opium into heroin, and some refining activities have reportedly moved to the Thai/Malaysia border.

On the other hand, the Thai have failed to enforce the opium poppy ban even in areas which have benefitted adequately from the United Nations crop substitution program. And, while we applauded the Government's raid in January, actions are needed to consolidate and expand this disruption of trafficking.

INM assistance will continue to focus on controlling the entry of opiates from Burma (particularly through support of the interdiction efforts of the Border Patrol Police) and on opium eradication in Thailand. In the former instance, our assistance supports and will continue to support Thai efforts to sustain control on entry from Burma, principally by destablilizing trafficking organizations. U.S. assistance will also support drug education projects to alert the Thai people to the dangers that drug trafficking and drug abuse pose to them.

(Burma)

Burma has been a traditional source of illicit opium, producing an estimated average annual yield of 300 tons over the five-year period 1976 through 1980. The 1979 and 1980 harvests were estimated at only 125 tons and 179 tons respectively, attributable in part to suppression activities of the Socialist Republic of the Union of Burma (SRUB), but chiefly the result of prolonged drought in the growing areas. However, good weather in the 1980-81 growing season resulted in a bumper opium harvest estimated at 550 tons, with prospects for at least as much from the 1982 harvest.

Political insurgent and bandit organizations such as the Burmese Communist Party and the Shan United Army, operating principally in the Shan, Kachin, and Kayah States, are largely responsible for production of and trafficking in illicit narcotics. The principal enforcement agencies are the People's Police Force and the Burma Army, supported by the Air Force.

Burma is slowly emerging from its self-imposed isolation and cooperation on narcotics control issues has been a major aspect of our improved relationship with the SRUB. The Government places great importance on achieving long-term success in reducing the production of opium and heroin, through a combination of rural development and crop substitution with enforcement and eradication. The SRUB reports that sizeable amounts of poppies are manually eradicated each year; however the Government at present is unable to exercise effective control over most of the opium-producing areas. U.S. support has provided and will continue assistance to the security forces, as well as for programs of opium eradication and interdiction of opium trafficking -- through provisions of equipment, other resources, and training.

The $5,000,000 budgeted for these objectives in FY 1983 provides funds for maintenance of telecommunications equipment and a small fleet of helicopters and fixed wing aircraft. The United States also provides training for Burmese officials with responsibilities for customs and narcotics enforcement.

Although we are frustrated by the Government's inability to do more, we are satisfied that progress is being made and that the trend is upward.

(Other East Asia Regional)

In addition to major country-specific projects, the Bureau supports other ongoing country-specific projects, or initiates such programs, through its regional cooperation assistance program. A specific goal is to support regional projects among ASEAN member nations, designed to impede illicit narcotics production, processing, trafficking and consumption. The regional program includes law enforcement, prevention education, and technical assistance in addict treatment and rehabilitation. The Bureau has budgeted $400,000 for programs in the East Asian region.

Southwest Asian Strategy

According to DEA, Southwest Asia (principally Pakistan) is currently the principal source of heroin entering the United States. The lack of diplomatic relations with Iran and the Soviet occupation of Afghanistan preclude any cooperative narcotics control efforts. INM's regional strategy centers therefore on Pakistan as a major opium and heroin producer and on Turkey as a principal conduit of opiates moving from Southwest Asia to Western Europe and eventually the United States. INM has budgeted $4,100,000 for Near East and Southwest Asia programs for FY 1983.

(Pakistan)

Opium production in Pakistan for the past two years has been in the 100-125 ton range, down from the record 700-800 ton 1979 crop. Three factors account for this (1) a Government ban on poppy cultivation which was totally effective in the Government-controlled "settled" areas of the Northwest Frontier Province (NWFP), which produced 300 tons of the 1979 crop; (2) production disincentives, due to depressed prices because of larger stocks remaining from previous crops; and (3) adverse weather conditions.

Pakistani cooperation to control opium production and heroin trafficking is improving as the Government becomes increasingly aware of potential threats to its own social, economic and political stability, and foreign assistance becomes available.

The ban on poppy cultivation was enacted in 1979, and all cultivation in areas under firm Government control (the settled areas) has apparently ceased. In contrast to the "settled" areas, enforcement of the ban has not been politically feasible in the tribal areas of the NWFP, which still enjoy considerable autonomy. However, the Government has indicated that it is prepared to act forcefully against heroin or morphine laboratories; in February, the Government shut down, for the first time since 1978, a heroin processing laboratory in the tribal areas.

Enforcement of the poppy cultivation ban did occur in 1981 in a U.N. assistance project area within the "merged" areas of the NWFP which were (as recently as 1971) tribal or princely states autonomous of central government control, and which are still in initial stages of political integration into the central government administration. U.S. narcotics control programs focus on these "merged" areas of the NWFP, which produce 80 percent of Pakistani opium (versus 20 percent for the tribal areas). A developmental project sponsored by the United Nations Fund for Drug Abuse Control (UNFDAC) is in place in the merged areas. The Government maintains that the traditional opium trade cannot be forcibly suppressed without a political back-lash unless some developmental assistance, including alternate income possibilities, is provided.

INM's assistance to Pakistan over the next several years will continue support of crop control in the "merged" areas, through a combination of enforcement of the poppy ban and appropriate economic development projects. INM has budgeted $3,000,000 for FY 1983. Our assistance agreements with Pakistan are negotiated with the Pakistan Narcotics Control Board (PNCB) as the coordinating agency with the Government of Pakistan. The programs themselves may be implemented by federal or provincial authorities.

At the present time, we have programs in two categories: crop control and law enforcement (there is a small program in demand reduction). Enforcement assistance continues to be provided through the PNCB to enforcement agencies such as the Port of Karachi Customs and the National Police. The PNCB is currently establishing with DEA's advisory assistance narcotic task forces in provincial capitals. Crop control activity is currently limited to introducing agricultural alternatives. However, INM with AID support, anticipates agreements with Pakistan beginning in 1982 which link enforcement of the poppy ban with developmental assistance. Pakistan has agreed to invoke the poppy ban in the area of a developmental assistance project from the time the project agreement is signed.

(Turkey)

The Turkish Government has demonstrated that it has both the will and the capability for effective licit opium crop control and interdiction. Since the early 1970's Turkey has used its own resources to prevent illicit diversions from its licit poppy cultivation. But, because of its strategic location between Asia and Europe, Turkey has been a traditional opium smuggling route as well as a base for illegal heroin and morphine laboratories. At present, most opiates moving by land from the producing countries (Afghanistan, Pakistan and Iran) transit Turkey en route to the United States and Europe with some refining in Turkey before shipment. INM is assistaing the Turkish National Police and the Jandarma with needed commodities. INM has budgeted $1 million for Turkey for FY 1983.

## MULTILATERAL PROGRAMS

The United States promotes awareness of the international narcotics problem through the United Nations General Assembly, the Economic and Social Council, and other UN agencies. Through the Single Convention on Narcotics and the Convention on Psychotropic Substances, the UN initiates controls on the flow and use of the narcotics and psychotropic substances and, through the Commission on

Narcotic Drugs (CND) and United Nations Fund for Drug Abuse Control, seeks to stimulate multilateral efforts to deal with narcotics production, trafficking and abuse. At our urging, the CND adopted a global five-year strategy in 1981. The United States has been the strongest financial supporter of UNFDAC. Recently, the Bureau initiated a meeting of major donors to UNFDAC, which produced a better understanding of the need to link crop control with economic development and of UNFDAC priorities.

In addition to urging other industrialized nations to assist in narcotics control, the United States has also urged international financial institutions to target development projects in narcotics-producing areas. To achieve its various international objectives, the United States also works with the North Atlantic Treaty Organization, the Organization for Economic Development and Cooperation, the Association of Southeast Asian Nations, the Colombo Plan and international public banks.

Colombo Plan Regional Drug Program. To assist Colombo Plan members (which include many of the world's illicit and licit opium producers) to suppress illicit production, processing and trafficking in opium and its derivatives, INM contributes to the Colombo Plan Regional Drug Program, which provides fellowships, seminars, workshops and multinational conferences for its members, as a means of providing training, technical assistance, and ensuring cooperation/non-duplication. The FY 1983 contribution is budgeted at $150,000.

UNITED NATIONS FUND FOR DRUG ABUSE CONTROL. UNFDAC has been able to work with countries whose cooperation is vital to US narcotics control interests, but where political circumstances inhibit US bilateral assistance. In other areas its programs complement US activities. UNFDAC's program supports projects seeking opium control through crop substitution, as well as enforcement and demand reduction assistance. Its activity focuses on Burma, Thailand, Turkey, and Pakistan. The US contribution to UNFDAC for FY 1983 is budgeted at $2,00,000.

TRAINING. Increasing the effectiveness of foreign drug enforcement personnel in drug producing countries and/or transit nations is important to the international narcotics control program. Training support is provided by the Drug Enforcement Administration, the United States Customs Service and the Department of State, and in some instances, by NIDA and the Coast Guard. Approximately 22,000 foreign personnel have been trained by the US since 1971; many have assumed key positions which are instrumental in the development and implementation of more effective drug control policies and programs. For several years, training in the United States and overseas of foreign nationals by US agencies was focused on the basic techniques of drug enforcement. Since 1977, as many participant countries began to develop some degree of training capability, emphasis has gradually shifted to more specialized types of instruction and expansion of operational capabilities through the utilization of more sophisticated investigative methods. Recognizing that international narcotics control training can provide channels of communication and cooperation among countries, added emphasis is being focused on regional training programs designed to improve multilateral intelligence and information exchange. Training is budgeted at $4,200,000 for FY 1983.

DEMAND REDUCTION. The long-term goals of this inter-regional activity are specialized for both Asian and Latin American countries. For Asia, the goal is to assist countries in coordinating policies and programs to implement large-scale demand reduction programs which can significantly erode the local heroin consumer base that supports local production and the exporting of narcotics. For Latin America, the goal is to assist organizations which can mobilize popular and governmental support for strong narcotic control programs. Raising the consciousness or awareness of both governments and societies to the impacts of drug abuse is an objective of the preventive efforts.

The inter-regional demand reduction program includes: (1) activities which alert and inform policymakers of the social, crime and health costs of drug abuse; (2) technical assistance in development of local treatment and prevention programs; (3) specialized internships; (4) development of training cadre; and (5) distribution of technical assistance material. INM has budgeted $600,000 for this activity in FY 1983.

## DIPLOMATIC INITIATIVES

As I indicated earlier, there are three strategic objectives which we pursue through diplomatic channels:

First, there is the need to impress upon the governments of all producer and transit nations their national responsibilities for the problems they contribute to the world community.

Second, there is the need for the industrialized and wealthy nations to make larger contributions to bilateral and multilateral programs.

Third, there is the challenge of ensuring that there are adequate programs in all major producer and transit nations.

President Reagan, Secretary Haig, our ambassadors and embassy specialists, our Bureau personnel and other US. officials are stressing these points in their dialogue with the leaders and ministries of other nations.

And, these diplomatic initiatives with respect to increased national acceptance of responsibility are having an effect. I would like to note that, when Prime Minister Prim of Thailand came to the US to meet with President Reagan, he was accompanied by the Deputy Prime Minister and a senior narcotics specialist -- a recognition of the Royal Thai Government's understanding that we are unequivocally serious, in our dealing with all such governments, in reducing the impacts of drug abuse on the American people.

Similarly, our recent discussions with the Bolivian government, the actions of the Thai and Pakistani governments, the increased destruction of crops reported from several countries and other activities are encouraging.

Our third diplomatic objective -- ensuring a comprehensive program network -- is linked closely with our objective of increasing support for international programs -- and, our insistence on this point is rivalled only by our disappointment.

Anyone reading the data on drug abuse around the world must conclude that it is in the self-interest of all nations to control production and trafficking in their territory and to share in the international responsibility for supporting demand and supply reduction programs.

The importation of heroin into Europe rivals US imports levels; there are an estimated 225,000 to 350,000 heroin addicts in Western Europe compared to a US estimate of 450,000; and overdose death rates in countries such as Italy, Denmark and Germany are comparatively equal to or greater than in the US. The incidence of heroin addiction in countries such as Malaysia, Thailand and Hong Kong is considerably higher than in the US.

In sum, these and other examples confirm that drug abuse is a problem that affects both industrialized and developing nations, including producer and transit countries. Drug abuse is not just an American problem.

There are indications that this spreading misery has made a number of producer and transit nations more conscious of the impacts of drug abuse on their people, and conditions have improved for initiating projects.

But, international support has not kept pace with the rhetoric; the response of the world community does not match the problem. Only the United States, the Federal Republic of Germany, Sweden, Norway and Australia contribute $500,000 or more a year to UNFDAC.

## CONCLUSION

Any assessment of the United States' international strategy and program just described must consider, as a central condition, that our efforts can only be as effective as the strategies and programs of the governments with whom we collaborate.

Yet, while we candidly acknowledge our continuing problems, the Department and our Bureau remain confident of our policies and direction.

We share the conviction of our colleagues that we must continue the strategy of applying pressure at all points in the grower-to-user chain -- through effective treatment and prevention; through intensified investigation and prosecution; through increased seizures of both drug products and financial assets; and through crop control.

We need a more balanced narcotics control program, not only in terms of the balance between crop control and interdiction, but also in terms of the number of countries supporting the international effort. We must ensure that there are adequate programs involving the major producer and transit nations. There is need, not only for the industrialized and other donor nations to make a larger contribution to bilateral and multilateral projects, but for these nations to focus on other drugs as well as heroin, and for their efforts to be extended to all geographic spheres of production. And, again, there is the need to impress upon the governments of all producer and transit nations their national responsibilities.

In conclusion, we have some reason to be optimistic that our international efforts are having an effect -- not that we are solving or eliminating drug abuse -- but that we are making progress in our more realistic objective of controlling the production and distribution of major illicit substances. We do not have control, but we have improved the possibility that we will gain control.

We have made narcotics control a foreign policy priority. We have accepted the challenge.

## BOLIVIA PROGRAM

Senator **Kasten**. I am sorry your friend, Senator Al D'Amato, is not with us today. Maybe he is going to come in to ask some questions.

I want to ask you about Bolivia. You show a $240,000 program for the current year for Bolivia. But we specifically deleted that program in our last year's budget. Are you aware of that?

Mr. **DiCarlo**. I am aware of the fact that we had discussions about the Bolivian program. But I was not aware that the amount of money was deleted.

Senator **Kasten**. Please identify yourself for the record.

Mr. **Conway**. John Conway, deputy executive director, INM.

Senator **Kasten**. Just for the purpose of the record, would you repeat what you said?

Mr. **Conway**. There was a $3 million reduction of the Bolivian program, but there was a retention of one program called "PRODES."

Senator **Kasten**. Called what?

Mr. **Conway**. P-R-O-D-E-S.

Mr. **DiCarlo**. The program that we had started some time ago which produced substitute crops so that if and when we have agreements with Bolivia we are in a position to move those crops into the field without destroying a program that had existed.

[The information follows:]

### Bolivia Program Funding

There was an elimination of program funding for Bolivia. The $240,000 in the fiscal year 1982 budget is only for Program Development and Support i.e., to maintain our Narcotics Assistance Unit staff of one American, local staff, and Embassy expenses. Consistent with our policy, no new assistance programs are funded. But, reflecting the Department's post-July 1980 coup assistance decisions, we have maintained from pipeline funds minimal support of PRODES so we would not lose a U.S. investment in staff and plant nursery stocks. Additionally, our staff monitors and reports on the narcotics situation.

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## LETTER FROM CLYDE D. TAYLOR

May 26, 1982.

Mr. James Bond,
*Room 1235, Dirkson, Subcommittee on Appropriations, Committee on Foreign Relations, U.S. Senate, Washington, D.C.*

Dear Mr. Bond: We have requested, in our review and correction of the May 20 hearing transcript, at page 28, a clarification of our answer to the Chairman's questions concerning the $240,000 for Bolivia in our FY 1982 budget. The answer was incorrect and I do not believe the record is well served by error.

The $240,000 is, as shown in the budget, for Program Development and Support; i.e., to maintain our Narcotics Assistance Unit staff of one American officer, local staff and Embassy expenses. Consistent with our policy, no new assistance programs are funded. But, reflecting the Department's post-July 1980 coup assistance decisions, we have maintained from pipeline funds minimal support of PRODES (the program described in Mr. Conway's answer) so we would not lose a U.S. investment in staff and plant nursery stocks. Additionally, our staff maintains and reports concerning the narcotics situation.

Likewise, concerning information requested on UNFDAC (page 38), we would like to correct the record in order to represent the most current information. Submitted with the transcript are inserts which we request replace those given you by Mr. Conway at the hearing.

I hope our amended answers are considered favorably. Please call me should you have any questions (632-6642).

Sincerely,

Clyde D. Taylor,
*Deputy Assistant Secretary for International Narcotics Matters.*

### POSSIBILITY OF POLITICAL CORRUPTION IN BOLIVIAN NARCOTICS TRADE

Senator **Kasten**. Are you confident that the political situation there, including high Government officials being involved in drug traffic, has changed that would warrant, essentially, a fourfold increase in the program in Bolivia?

Mr. **DiCarlo**. All our information thus far is that the present administration is not involved in the narcotics trade, as was alleged in prior years. I cannot give a guarantee that everyone involved in the Government is completely free of narcotics taint—that I could never do because in most countries where narcotics is a problem there is some curruption involved.

But we are confident that the present administration is seeking to do something about narcotics control. I was just in Bolivia in February. I had conferences with the president of Bolivia. We are now working on a crop eradication program plan for Bolivia, the first draft of which calls for the elimination of all illegal coca in Bolivia within a 5-year period.

The Bolivians have, in a limited area, eradicated, in the past several weeks, approximately 60 or so hectares in a test program and have raided well over a hundred laboratories there.

We are waiting for an agreement to be signed. I am confident that the present administration is not tainted as the past one was with direct involvement.

Senator **Kasten**. What happened to the individuals that were involved formerly in the Bolivian Government who were involved in drug traffic?

Mr. **DiCarlo**. The present Bolivian Government has informed us that if any indictments can be obtained by the United States in those cases they would extradite those individuals to the United States.

Senator **Kasten**. Right now they are not involved in the Government, but they are also not under any kind of detention. Is there any legal action against them?

Mr. **DiCarlo**. We had withdrawn our Ambassador from Bolivia some time ago because of the narcotics problem and involvement of the Government, and also because of the human rights situation in Bolivia. In September-October of last year, our Ambassador was returned.

One of the things the U.S. Government asked for was that two Bolivians who are wanted in the United States for narcotics trafficking would be sent to the United States, and they were.

If the question is whether or not the high officials formerly in the Bolivian Government are under indictment in Bolivia, the answer to that would be, no. On the other hand, the Bolivian Government has informed us that if we have indictments they will entertain those indictments and extradite those individuals.

## UNITED NATIONS FUND FOR DRUG ABUSE CONTROL (UNFDAC)

Senator **Kasten**. You show in your justification material for the current fiscal year a $2 million program for the United Nations Fund for Drug Abuse Control.

Mr. **DiCarlo**. Yes, sir.

Senator **Kasten**. The language of the conference report states specifically that none of the funds appropriated for international narcotics may be used for this purpose without a reprograming request being sent to the committee.

Mr. **DiCarlo**. Yes, sir.

Senator **Kasten**. We have received no such reprograming request.

Mr. **DiCarlo**. I sent that up, I believe, 2 weeks ago. That program request was sent to the committees on May 17. In fact, I wanted it here before my testimony so that if any question came up about it I would be in a position to answer it.

Senator **Kasten**. Evidently we have not received it. That is not the first time this has happened. We will be working with you, and we will get that.

I am going to have to recess the committee meeting for about 2 minutes while I go to vote.

[Whereupon, a recess was taken.]

## BURMA NARCOTICS PROGRAM

Senator **Kasten**. The subcommittee will come to order.

At a time when Burma seems to be turning toward the West after its self-imposed isolation, you are recommending an 18-percent decrease in that country's narcotics program. The program has been considered by the Burmese, as a recent subcommittee staff field investigation verified to us, to be very important.

Why are you recommending that large a cut for the program in Burma?

Mr. **DiCarlo**. We also agree that the relationship between Burma and the United States has been enhanced by the INM program, which was the only program, really, that existed between the two countries. If one looks at the gross figure it looks like a decrease, but in fact it is not.

There was a one-shot purchase of an aircraft which was in excess of $1 million that caused the increase last year. It was a replacement aircraft that caused the increase. This budget is going back to the normal funding levels which enable the Burmese to utilize the equipment we had previously provided them—we think, in an effective manner.

Senator **Kasten**. So, they will not look upon this as a decrease. It was a one-shot deal with the airplane. The program is held level or slightly increased?

Mr. **DiCarlo**. The program is held level or slightly increased. It was in fact the purchase of an aircraft that caused it to go up last year.

## SALARY SUPPLEMENTS FOR THE MEXICO PROGRAM

Senator **Kasten**. You are showing no funding for salary supplements under the Mexico program. There was no budget request last year, instead it came through as a reprograming request, which we reluctantly agreed to.

Can we get your assurance now that there will be no such reprograming request in fiscal 1983 for salary supplements?

Mr. **DiCarlo**. Those assurances were given to this committee before by other people in my position. In discussions with committee staff last year I said I could give no assurances. I made that request last year because I thought it was essential, that is, the continuation of the Mexican program. Because of problems in Mexico we believed it necessary to continue to do it.

This year we have not funded salary supplements. The program, if you look at the last 3 or 4 years, has been decreasing. We feel at this time that there is no need for it. I would hope that we would not find it necessary to come in with a request because I know the problems that the committee and the Congress have with that kind of a program.

If I felt it was absolutely necessary for a continuation of the Mexican program and felt that it had to be there in order to continue a program which affected heroin production and trafficking, particularly into the southwest portion of the United States—if I felt it was absolutely necessary—I would come to the committee, realizing that of course that the request could be denied.

But I cannot give any assurances as to what might happen in the future to the economy of Mexico, its ability to perform. There is a new Mexican Government coming in. But we have informed the Mexicans that it would be extremely difficult if not impossible to get salary supplements.

I do not want to tell this committee that under no circumstances, no matter what might happen in the future, I would not come back to this committee for some appropriation—even though the committee may not grant it.

I feel that it would be my obligation, considering all the facts and circumstances if it were necessary to continue an American program—if I felt that way, and I do not feel that way at this time—to come to this committee.

This committee, of course, would be the arbitor whether or not that transfer of funds would be made. But I see no need for it at this time.

Senator **Kasten**. Our concern, you understand, is not whether or not we are for or against the salary supplements, and it certainly is not whether or not we are for continuing a program that is good. What we are concerned about is if it is important and if it is needed then it ought to show up in the initial request and not go through the reprograming system. If it is not, then it ought not to be coming in.

We do not disagree with the use of the money. What we are concerned about is and what is happening more and more—not just in your group—people come in with something saying, "OK, we did not include this in the budget because we did not think it was necessary but now it is." Frankly, it is becoming clear that some of the politically sensitive issues are not being included in the budget and are coming back for reprograming and in the supplementals.

Mr. DICARLO. I understand. I do not think I would ever keep something out that is politically sensitive—keep it out for that reason.

In the case of the Mexican salary supplement, the budget was made at a time when I was not in office. At that time it was expected that the Mexicans would achieve self-sufficiency and would not require any money. The allocation of moneys to Mexico was substantially cut down in that year. It was only when the Mexicans said they could not achieve that self-sufficiency that we came back for a reprograming of funds.

I would like to say this in answer to your question, Mr. Chairman, there are many things that I might have to come back to this committee for. I have taken the position that I did not request a very substantial increase in moneys in my budget because I would rather be in the position of coming before the Congress at a time when we had the plan ready to go, rather than anticipate a program that had not been developed and that may or may not occur.

There are many areas of the world today where we have not asked for money but we could be asking for money in the future. That could be done either by way of reprograming existing moneys we already have, or by asking for a supplemental appropriation from the Congress.

I can give you certain instances—such as the case of Colombia. I do not know whether or not after the elections and after the environmental impact statements are completed we will be in a position to go forward with aerial eradication, for example, in that country. If we do, I would have to come back for money. That can be done either within the existing budget and reprograming to get some of those funds, or through a supplemental appropriation.

In the case of Bolivia, if we get to the point where the Bolivian Government is able and willing to go forward with an extensive eradication proagram in Bolivia, that is going to cost money. We can do it in one of two ways, either by reprograming money from sources already in our budget, or by getting a supplemental appropriation if that is possible.

I do not want to tell this committee and you, Mr. Chairman, that I would not come back for funds that are in the existing budget for reprograming if certain things occur which made that necessary in our opinion.

### UNITED NATIONS FUND FOR DRUG ABUSE CONTROL

Senator KASTEN. I think we understand each other. I just do not want to go through these reprogramings if in fact the need is clear.

Through calendar year 1981, what were the total cash contributions to the United Nations Fund for Drug Abuse Control; do you have those numbers?

Mr. DICARLO. You mean, sir, in the year 1981, or the total from the time that it was formed?

Senator KASTEN. I want to get a sense of how much is contributed by the United States, as opposed to how much by other countries, and what is the current cash on hand of the United Nations Fund for Drug Abuse Control.

Mr. DiCarlo. Mr. Chairman, I have a figure here, since 1971 the total contribution to UNFDAC has been $54,500,000 collected or pledged to UNFDAC through 1981. The United States has obligated $27,100,000 during that same period.

Senator Kasten. So, one half.

Mr. DiCarlo. Approximately one-half, yes, sir. That is changing. In the beginning of UNFDAC the vast majority of the funding was coming from the United States. In fact, last year, according to information we received, for the first time one nation has contributed more money to the fund than the United States and that was the Federal Republic of Germany.

Senator Kasten. You said contributed or pledged?

Mr. DiCarlo. Yes, sir.

Senator Kasten. Just plain cash, what happens then? Is there money pledged that has not been paid in? Obviously, that is when you say "paid or pledged." What does the U.S. share start to be when we look at just plain cash received rather than pledged, do you know that?

Mr. DiCarlo. If you are asking me whether or not in the past year certain money that has been pledged has not been paid in, and whether or not that figure includes moneys, for example, that were pledged perhaps in 1974 and never paid, my evaluation of it at this time—without checking further—would be, we are talking in terms of moneys pledged. We are going into moneys where the debt is still good rather than the debt account.

Senator Kasten. What is the current cash on hand? What is the current cash on hand of the U.N. Fund, do you have that information?

Mr. DiCarlo. Approximately $6 million, I am informed. If we are in error of that, we will check it and correct the record.

[The information follows:]

UNFDAC Cash Balance in U.S. Treasury

| | |
|---|---|
| As of October 1, 1981, the U.S. obligated but unliquidated funding balance for UNFDAC was | $6,250,000 |
| Released for liquidation, Nov. 21, 1981 | 2,000,000 |
| Release for liquidation, Apr. 9, 1982 | 2,000,000 |
| Current unliquidated balance | 2,250,000 |

Senator Kasten. Please get back to us with more detailed information on this question. Frankly, it is a growing concern of the Congress that our share of many of these United Nations Funds are disproportionate. We need other members of the United Nations to contribute more, or we ought to be decreasing our share.

Mr. DiCarlo. Senator, I do have a document here from the Fund that will answer some of those questions, the earmarked, unearmarked, and total moneys available to the Fund. If I could submit that for the record. It is from Mr. Donnelly Sohlin, the Deputy Executive Director of the United Nations Fund for Drug Abuse Control. This is as of November 5, 1981.

[The document follows:]

## Draw-down of United States pledges

On 29 October 1981, Mr. Joseph Linnemann, Deputy Assistant Secretary of State for International Narcotics Matters, discussed with the UNFDAC the draw-down of U.S. pledges from 1979 forward. Mr. W. Vance Hall of the United States Mission participated in the discussions with Mr. Linnemann and Mr. Sohlin, UNFDAC Deputy Executive Director, in the latter's office. The three then moved to the office of Dr. Rexed, UNFDAC Executive Director, where the proposal was explained to him. Both, Dr. Rexed and Mr. Sohlin were in agreement with the draw-down plan but pointed out that the acceptance of the plan should be with the concurrence of the United Nations Office of Financial Services.

The plan considered draw-downs in two parts, earmarked and un-earmarked pledges. These are:

| | Earmarked | Un-earmarked | Total |
|---|---|---|---|
| 1979 | 2,000,000 | 1,000,000 | 3,000,000 |
| 1980 | - | 1,120,000 | 1,120,000 |
| 1981 | 1,900,000 | 250,000 | 2,150,000 |
| | 3,900,000 | 2,350,000 | 6,250,000 |

## Earmarked funds:

Mr. Linnemann agreed that the documentation presented to the United Nations Office of Financial Services (Mr. Winant) and the Department of State on actual UNFDAC disbursements in 1980 of the $2 million (1979 pledge) was an adequate basis for the immediate draw-down of that amount. He suggested that a similar statement of disbursement for the $1,900,000 (1981 pledge) which will be used in 1982 be presented for draw-down in 1983. Any earmarkings would be handled in the same manner, i.e. draw-downs would be made upon presentation of a disbursement statement.

## Un-earmarked funds:

Mr. Linnemann proposed a variation of the Van Wert formula for un-earmarked pledges. UNFDAC expenditures for 1981 will be finalized some time within the first three months of 1982. Upon notification of the expenditure figure, the U.S. will permit draw-down of 50% of the total expenditure. In fact, the 50% refers to the maximum percentage of total UNFDAC contributions in 1981 which the U.S. was legally authorized to make. It was understood that the use of the percentage of expenditure was an arbitrary formulation since the legislation itself was concerned with percentage of contributions. Further the 50% of expenditure was the formula used by Mr. Van Wert rather than the "up to 50%".

Under this formula, if in 1981 expenditures totalled $6 million, $3 million of un-earmarked pledges could be draw-down. However, outstanding un-earmarked pledges total only $2,350,000 and that would be the amount of the draw-down in 1982. Future un-earmarked pledges would be draw-down in a similar fashion, i.e. tied to legal percentages of authorized U.S. contributions. Should future U.S. legislation not be specific, another formula would have to be devised.

Donnelly A. Sohlin
Deputy Executive Director
United Nations Fund for Drug Abuse Control

5 November 1981

DAS/ks

26 June 1981

Dear Riv,

This is the follow on to our meeting in your office on 7 May regarding the draw-down of the 1979 and 1980 US pledges. For background I am extracting the following from the report on my mission to New York:

"Draw-down of 1979 and 1980 - US Pledges:

At my first meeting with ASG Ruedas, I raised the matter of the 1979 and 1980 US Pledges totalling US$ 4.1 million which had not been paid. I explained that IHM Controller, James Van Wert, had called me in Vienna just prior to my departure to suggest that a draw-down formula be worked out by IHM, UN New York and UNFDAC. Ruedas expressed surprise that there had been no draw-down, as he had indicated a year ago that early in 1981 the UN would begin to use those contributions. He now welcomed the possibility of discussions on this and askedmme to explore the matter further with his Deputy, Mr. William Goodkind. Goodkind also welcomed the possibility of discussions and suggested that I work with UN Treasurer, Rivington Winant on the arrangements. The morning of 7 May proved to be satisfactory for Winant and myself and the State Department representatives: Deputy Assistant Secretary Joseph Linneman and Controller Van Wert. It subsequently developed that Linneman could not attend the meeting. However, the US Mission to the UN was represented by Mr. George Saddler and his Deputy. Mr. Van Wert expressed his concern that any cash draw-down of the US contributions would be placed in interest-bearing accounts and thereby earn interest. He wanted to ensure that draw-downs are for actual cash requirements. It was explained to him and the other US reps. that all cash contributions are placed in interest-bearing bank accounts, some of which are call-accounts and could be drawn against at any time. The fungibility of cash was also explained, i.e., that once deposited, funds could not be identified with any particular donor. The US reps. were then requested to state whether or not it was US policy that the US contribution be used after all other contributions. I stated that if this were to be the case it might be sometime before draw-downs were made as we programmed and allotted funds against the pledges and were constantly receiving new funds from the donors. Van Wert stated that the US no longer took the view that its contribution should be used last. These concepts and policies having been satisfactorily disposed of, we proceeded to discuss possible draw-down formulas.

I stated that the UNFDAC expenditures for 1979 were US$ 5.7 million and the expenditures for 1980 were approximately US$ 6 million. Apart from the proof that the previous draw-down of US$ 10.6 million had been spent it was also clear that our expenditures - actual cash disbursements - were in the neighbourhood of US$ 6 million annually and that the 1981 expenditures would be at least US$ 6 million. On this basis I suggested that UN draw US$ 2 million in 1981 from the US pledges and US$ 2 million in 1982. The draw-down should be in tranches of US$ 1 million on January 1 and July 1 of each year. Van Wert seemed to accept the idea of US$ 2 million a year draw-down but with timing of 30 June and 31 December. Winant proposed a compromise of 31 March and 30 September, except for 1981 when 30 June and 30 September would be the dates. Prior to any draw-down, UNFDAC would present its estimate of actual cash utilisation on a six month basis. There was general agreement on this procedure."

We have now estimated our expenditures for 1981 and these estimates are shown on the attachment. The basis for the specialized agencies is actual cash transfers to date plus the estimates by agencies of their additional requirements for cash from 1 July to 31 December. This conforms to the suggestion of the US reps that for specialized agencies, the cash transfers be used and be regarded as the expenditures in this exercise. In the cases of DND and INCB executed projects, as well as UNFDAC's direct requirements, funds are allotted with no cash transfers being made. Therefore, the estimates are on the basis of actual cash disbursements by the organisations and projections for the future.

I hope that with the agreement reached in your office and now the estimates, the draw-downs can proceed. Please keep us informed as to progress.

With best personal regards.

Yours sincerely,

Donnelly A. Sohlin
Officer-in-Charge
United Nations Fund for Drug Abuse Control

P.S. We are providing the US Mission in Vienna with a copy of the attachment for their information.

Notes on Management Matters for discussions in New York and Washington

1. Except for Pakistan, 1981 programme signed up and funds in place.
2. When Pakistan programme is signed, 65% of the 1982 programme will be signed and 50% of 1983 will be signed.
3. Improved programme documentation.
4. Improved financial reporting:
   - (a) From Specialized Agencies - now ~~orderly~~ quarterly.
   - (b) From UNIDO on monthly basis by project. (for DND, INCB and UNFDAC).
5. Improved management of funds:
   - (a) For 1980 WHO returned US$ 1,250,000.
   - (b) For 1980 ILO returned US$ 250,000
   - (c) UNESCO returned lesser amounts
6. Evaluation:

   Evaluations to be conducted on at least one major programme a year in addition to smaller projects.

   - (a) 1980: Burma programme
   - (b) 1981: Pakistan programme and UNESCO programmes
7. Audit:

   We have requested UN audit services to audit in 1981 the Turkey programme, property controls in all programmes, and DND projects: Law Enforcement Training, Publications and Information, Library and Scientific and other Publications, and Assistance to Regional Seminars on Narcotic Drugs.
8. Coordination with Specialized Agencies:

   With improved programme documentation and improved financial and other reporting, we are in a better position to monitor Specialized Agency activities and to coordinate our work with them.

## UNITED NATIONS FUND FOR DRUG ABUSE CONTROL

### Financial Status as at 26 May 1981

| Funding | Million US$ | |
|---|---|---|
| Total income as at 31 December 1980 | 45.4 | |
| Pledges prior to 1981 remaining unpaid | 4.4 | |
| Additional contributions paid since 31 December 1980 | 1.7 | |
| Written pledges in 1981 | 0.3 | |
| Pledges announced verbally in 1981 | 2.7 | |
| | | 54.5 |
| **Utilization** | | |
| Expenditures 1971-1979 | 34.5 | |
| Estimated expenditures 1980 | 5.7 | |
| 1981 programme budget | 9.1 | |
| 1982 programme budget projected | 9.7 | |
| Reserve for termination costs | 1.0 | |
| | | 60.0 |
| Requirements | | ( 5.5) |

Since 1 January 1981 the following cash payments have been received by UNFDAC, some of which relate to pledges made in prior years:

| Country | US$ |
|---|---|
| Australia | 336,685 |
| Barbados | 250 |
| Canada | 205,930 |
| Chile | 3,000 |
| Finland | 20,000 |
| Iran | 9,770 |
| Italy | 108,108 |
| Japan | 300,000 |
| Kenya | 6,400 |
| Malaysia | 2,000 |
| Malta | 251 |
| Mauritius | 487 |
| Norway | 413,008 |
| Pakistan | 1,006 |
| Saudi Arabia | 50,000 |
| South Africa | 6,250 |
| Sweden | 53,274 |
| Switzerland | 56,818 |
| Yugoslavia | 18,000 |
| | 1,591,237 |
| Private Contributions | 91,456 |
| TOTAL | 1,682,693 |

The following contributions have been received from 26 - 31 June 1981:

| | |
|---|---|
| Chile | 3,000 |
| Hong Kong | 18,315 |
| Iceland | 3,000 |
| Japan Shipbuilding Industry Foundation | 200,000 |
| GRAND TOTAL | 1,907,008 |

## UNITED NATIONS FUND FOR DRUG ABUSE CONTROL

### ESTIMATED EXPENDITURES FOR 1981*
(in thousands of US Dollars)

| Organisations | 1 January - 30 June 1981 | 1 July - 31 December 1981 |
|---|---|---|
| WHO | 381 | 581 |
| ILO | 252 | - |
| FAO | 594 | 300 |
| UNSDRI | 50 | 77 |
| UNESCO | 180 | - |
| UNDP | 1,420 | - |
| DND | 500 | 2,100 |
| INCB | 2 | 123 |
| UNFDAC | 192 | 384 |
| TOTAL. | 3,571 | 3,565 |

Total Estimated Expenditures for 1981: US$ 7,136,000

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* For UNFDAC, DND, INCB: Expenditures are estimated on the basis of actual cash disbursements.

For UNESCO, UNDP, FAO, ILO, WHO, UNSDRI: Estimated expenditures are based on cash transfers - per agreement on 7 May 1981 at the meeting chaired by Mr. Rivington Winant, UNNY.

This information should be considered only in the context of that meeting.

Senator **Kasten**. During the break and while we have been talking, we have checked with the full Appropriations Committee about the reprograming request. They have not received it either. We have also checked with the House of Representatives' Appropriations Subcommittee, and they have not received it either.

So, you ought to resubmit that request, it evidently has gotten diverted or lost, or somehow or other delayed. So, if you could resubmit that.

Mr. **DiCarlo**. We will do that.

### SUBMITTED QUESTIONS

Senator **Kasten**. There may be some additional questions. We will submit those questions to you in writing, and please get back to us with answers in the appropriate period of time.

Thank you for being here today. We look forward to working with you.

Mr. **DiCarlo**. Thank you very much.

[The following question was not asked at the hearing, but was submitted to the Department for response subsequent to the hearing:]

### Question Submitted by Senator Kasten

#### INM EFFORT

Senator **Kasten**. Huge amounts of drugs continue to pour into the United States. Drug abuse continues to be a major problem. While surely your efforts are noble, isn't the problem so large that the expenditure of just $40 million is wasted, as it hardly makes a difference in the overall drug situation in this country?

Mr. **DiCarlo**. If our only strategy to stop the total flow of drugs into the U.S. was to supply $40 million in various nations to get them to end production and trafficking in illegal drugs, then I would agree that we would be wasting our money.

INM funds are used to complement our diplomatic initiative. U.S. policy is that the governments of nations producing narcotics have a primary responsibility under international conventions to control cultivation, production and trafficking. Our funds are spent to assist those nations who recognize their treaty obligations and require asistance to fulfill them.

We believe these programs are making a difference, as shown by recent reports on acreage reductions, crop destruction, and seizures. Within our budget we have been able to bring about crop control in Turkey and Mexico. We have obtained agreements in Peru and Burma which will result in a reduction of production, and pursuing initiatives with other producers. When agreements are reached with other nations, additional funds may be necessary.

It should be noted in this regard that our budget is not the sole source of funding for international narcotics control. A.I.D., DEA and the Department of Agriculture also fund narcotics-related programs. And, the international community is also funding programs, on a bilateral and multilateral basis. Our contribution to UNFDAC enables us to play a leadership role in this international effort.

## BUREAU FOR REFUGEE PROGRAMS

### STATEMENT OF AMBASSADOR RICHARD D. VINE, DIRECTOR, BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

ACCOMPANIED BY:

JAMES N. PURCELL, SENIOR DEPUTY ASSISTANT SECRETARY, BUREAU FOR REFUGEE PROGRAMS

FRANK MOSS, DIRECTOR, OFFICE OF PROGRAM AND BUDGET PLANNING, BUREAU FOR REFUGEE PROGRAMS

### PROGRAM OBJECTIVES

Senator KASTEN. Our final witness this afternoon is Ambassador Richard D. Vine, Director for the Bureau for Refugee Programs, Department of State.

Mr. Ambassador, we will submit your entire statement in the record. We ask that you summarize your statement at this time. Welcome, and we are pleased to have you with us.

Ambassador VINE. Thank you very much, Mr. Chairman. I am a career Foreign Service officer, as you know, and I have only been with the program for about 6 months. So, this is really the first time I have appeared before your committee. But I know already how supportive you particularly and the other members of your committee are.

I have with me today Mr. James Purcell, my principal deputy and Mr. Frank Moss, who is the Director of our Office of Program and Budget Planning, to help me answer your questions as precisely as we can.

You have my statement for the record. I would like to make just a few points before we go to questions.

One, I would like first of all to say that we are emphasizing two particular points in the general pursuit of our objectives.

One of those is that while the United States has a special concern and responsibility for certain refugees, we believe that refugees are an international responsibility and that this responsibility should be shared by the international community—primarily through international organizations, particularly the United Nations High Commissioner for Refugees.

Second, we believe that refugee resettlement in the United States is our least-favored solution. Where possible, we are trying increasingly to emphasize that refugees should be allowed to return voluntarily to their homelands or to resettle in the country of asylum rather than be resettled in third countries.

This budget request embodies those policies. Only 38 percent of this budget is for resettlement in the United States against, for example, 60 percent in fiscal year 1980. Moreover, refugee admissions have fallen from over 210,000 in fiscal year 1980 to a projected level of 103,500 in this request.

### REQUEST FOR MIGRATION AND REFUGEE ASSISTANCE

This 1983 request for the migration and refugee assistance appropriation totals $419 million, which is $84 million less than the fiscal year 1982 appropriation. But you have to understand that we have proposed a reduction of some $50 million in the 1982 appropriation which will eliminate unneeded funds, but will not have any significant effect on our programs.

### ADMISSIONS PROGRAM

Within this total funding of $419 million we request $158,188,000 for the resettlement of refugees to the United States. This would finance resettlement of up to 103,500 refugees, including 72,000 from Southeast Asia. These numbers, you have to bear in mind, are projections for budget purposes. The President will have to make the final determination on fiscal year 1983 admissions after he has consulted with the Congress in the procedure called for in the Refugee Act of 1980.

There is a second caveat I have to make with respect to those numbers. That is, there are uncertainties in projections. We can never be sure in advance, as for example in Eastern Europe, exactly how many numbers of admissions will be needed. Changing situations may require some adjustments. If they do, we will have to seek reprograming or changes in the numbers as we go along. But I do not expect the total to increase unless there are some fundamental changes in the world refugee scene.

### RELIEF PROGRAMS

The bulk of our budget request is for refugee relief abroad, mainly through contributions to international organizations. We seek $29.4 million for refugee relief in Southeast Asia, a decrease of about $20 million from fiscal year 1982, reflecting the decreased needs for both UNHCR care and maintenance of Indochinese refugees and the UN Border Relief Organization activities for the 200,000 Khmer along the Thai-Kampuchean border.

We also propose $10 million for resettlement assistance to help finance programs of voluntary repatriation, local resettlement in countries of first asylum, and innovative projects for third-country resettlement, particularly in developing countries.

We request $12.5 million—the same as in fiscal year 1982—to help finance assistance to Soviet and Eastern European refugees settling in Israel.

For assistance to refugees in Africa we seek $76.9 million, which is a $30.1 million decrease from 1982. That reflects the fact that $30 million is almost entirely a one-time appropriation in the 1982 budget that is allocated to AID for longer-term resettlement facilities and services for African refugees and displaced persons.

Our current request, however, represents a continuation of our policy of financing one-third of UNHCR African programs as well as a $7.9 million contribution to the International Committee for the Red Cross program, and $8 million to fund bilateral and voluntary agency projects.

In the Near East, we have two major refugee problems. One is the program of the United Nations Relief and Works Agency for Palestine Refugees. We are requesting $72 million to contribute to its program which faces a rapidly growing refugee population and increasing costs, especially for its education program.

Second, we request $38 million to contribute to relief activities for the more than two million Afghan refugees in Pakistan.

We are all aware of the troubling situation in Central America and the growing needs to assist refugees and displaced persons in that region. We request $5 million for that program, but since the needs are particularly difficult to project, Mr. Chairman, we continue to keep these problems under review. You are no doubt aware that the Department recently forwarded a notice of our intent to reprogram an additional $7 million for activities in Central America in 1982. I hope you have received that letter.

We also ask for $9,450,000 for contributions to various activities of international organizations, including the Intergovernmental Committee for Migration and for the ordinary budget and political detainee programs of the ICRC.

The administrative expenses of this program are expected to increase only $136,000 to a total of $7,562,000 for salary and operating costs for our staff of 98 permanent employees.

### EMERGENCY FUND

We do not request new funding for the Emergency Refugee and Migration Assistance fund where unobligated carryover balances should be sufficient to finance appropriate emergency responses in fiscal year 1983.

I would like to thank the committee again for its support for the refugee program over the past several years, and especially our efforts to reprogram funds in order to allocate our resources where they are most appropriately needed.

[The prepared statement of Ambassador Richard D. Vine follows:]

# PREPARED STATEMENT OF AMBASSADOR RICHARD D. VINE

## DIRECTOR

## BUREAU FOR REFUGEE PROGRAMS

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to present the Department of State's request for $419 million for the FY 1983 Migration and Refugee Assistance appropriation. Accompanying me are James N. Purcell, the Senior Deputy Assistant Secretary of the Bureau for Refugee Programs, and Frank Moss, the Director of our Office of Program and Budget Planning.

Before discussing the outline of our budget request, I would like to introduce myself and to bring the Members of the Committee up to date on the key international refugee relief and resettlement policies being pursued by the Department of State.

I am a career Foreign Service Officer. During my career I have had a variety of assignments involving European Affairs, including serving as Deputy Assistant Secretary for the Bureau of European Affairs, and during the previous Administration as U.S. Ambassador to Switzerland. I have been with the Refugee Program for about six months.

Concerning the philosophy of our program, a principal State Department policy is to favor solutions to refugee problems that minimize the number of persons resettled in this country. While we cannot deny our special concern and responsibility for refugees from certain areas, we recognize that refugee problems are an international concern and should be resolved where at all possible by voluntary repatriation and resettlement in countries of first asylum. Given this international responsibility, we continue to hold the view that the responsibility for refugee assistance and resettlement is to be shared by the international community as a whole through the services of international organizations, especially the United Nations High Commissioner for Refugees (UNHCR). The UNHCR received the 1981 Nobel Peace Prize in recognition of its efforts to deal with international refugee problems. As a major donor, it is our responsibility to press for continued programmatic and operational improvements in this organization so that it can meet the basic needs of refugees for protection, food, shelter, and medical care while other, more lasting solutions to their plight are being worked out.

The budget request before you is a concrete expression of this philosophy. Whereas, in FY 1980 over 60 percent of our expenditures were for resettlement in the U.S., only 38 percent of the FY 1983 budget request is directed towards U.S. resettlement. The number of refugees to be resettled in the U.S. has fallen from over 210,000 in FY 1980 to an FY 1982 consultations level of 140,000 and to a projected total of only 103,500 in the coming fiscal year. At the same time, we are increasing the proportion of our funding for programs which assist refugees in nations of asylum and for programs of voluntary repatriation and of resettlement in third countries which have not traditionally been engaged in resettlement.

I would like to emphasize, however, that the downward trend in admissions is being managed in a way that is consistent with the humanitarian traditions of the U.S. and with U.S. responsibilities for refugees of particular concern to the U.S. At the same time, we are continuing to provide support for the protection, care and maintenance of refugees abroad, in accordance with the level of need and with U.S. foreign policy interests in the particular program area.

Mr. Chairman, the State Department fully understands the significant impacts that refugee resettlement have on some communities in this country. It is our intention to continue to manage refugee resettlement to this country in such a fashion that the concerns of State and local governments are fully considered. We do not accept the faulty premise that the only viable solution to refugee situations is resettlement in a third country, chiefly the United States. We will continue to pursue other alternatives which promise to help resolve refugee situations in a humanitarian manner.

The FY 1983 request for the Migration and Refugee Assistance appropriation totals $419 million, $84 million less than the FY 1982 appropriation. Recently, the President has requested that FY 1982 funding for this program be reduced by $50 million. This proposal was made because of major cost savings in our refugee resettlements program--resettlements to the U.S. are running lower than the FY 1982 consultations level provides and the enacted appropriation finances. The Department is requesting a supplemental for protective security improvements for American diplomats at selected overseas posts. Because that supplemental and the deferral of refugee appropriation funds coincide, the President proposed to the Congress that transfer authority language be enacted to mitigate the financing of the protective security supplemental. If that language is not enacted, the Administration will request a rescission of these funds at a later date.

For U.S. resettlement activities in FY 1983, we are seeking $158,188,000 to finance the resettlement of up to 103,500 refugees, including 72,000 from Southeast Asia. I must stress that this level of refugee admissions is only a projection. The President will determine the admission ceiling after consultations with the Congress prior to the beginning of FY 1983, as required by the Refugee Act. Furthermore, due to such uncertainties as the situation in Eastern Europe, refinements of these admission projections may be required. However, it is my expectation that, unless the refugee situation in the world changes fundamentally between now and when we have our consultations in September, the total admissions ceiling will not exceed this figure, which is 36,500 persons lower than that for the current fiscal year.

Among the 31,500 refugees other than Indochinese, we have projected admissions of 23,000 Soviets and East Europeans, 4,000 from the Near East, 2,000 from the Western Hemisphere and 2,500 from Africa. We are of course, concerned about the current situation in Poland, and the levels of admissions which we request in September will take into account all factors relevant to this problem.

With respect to funding of relief assistance for refugees, the Department of State is seeking $29,400,000 to support refugee relief operations in Southeast Asia. These funds will support the care and maintenance operations of the UNHCR, as well as the international efforts to care for the 200,000 Khmer who have sought sanctuary along the Thai-Kampuchean border. This funding level is $20,435,000 less than that appropriated for FY 1982, reflecting continued reductions in the number of Indochinese refugees in Southeast Asia, as well as a reduced food program inside Kampuchea. We expect a phase-out of extensive multilateral assistance to the interior of Kampuchea by FY 1983.

The next activity in our budget is resettlement assistance. This program request is a concrete expression of the interest of the Department of State in resolving refugee problems through means other than resettlement in the U.S. We are seeking $10 million for this program in FY 1983, an increase of $9 million above the FY 1982 appropriation. The program will finance various voluntary repatriation, local resettlement and third country resettlement projects. It is our expectation that programs funded under this initiative will be organized under the auspices of international organizations or private voluntary agencies. Among the innovative activities funded will be projects involving local permanent settlement in nations of asylum, as well as initiatives to resettle refugees in certain developing nations which are willing to accept refugees for permanent resettlement, but which would be unable to do so without international financial support. These programs are intended to help reduce the number of refugees requiring resettlement in the United States.

The State Department is seeking $12.5 million, the same amount as appropriated in FY 1982, for a contribution to the United Israel Appeal. The contribution will help finance assistance to Soviet and Eastern European refugees who resettle in Israel. Regrettably, the Soviet Union continues to reduce the rate of emigration for its Jewish citizens, but this program continues at this level in recognition of the long-term costs incurred by Israel in caring for refugees who have arrived in recent years.

For assistance to refugees in Africa, the State Department seeks $76.9 million, which is $30,100,000 below the FY 1982 appropriation. This decrease is accounted for by the one-time appropriation of $30 million to the Migration and Refugee Assistance Appropriation in FY 1982 for longer-term projects to aid refugees and displaced persons in Africa. It was recognized that such longer-term projects are properly the responsibility of the Agency for International Development. In fact, the Congress specified that the FY 1982 appropriation be administered by AID.

Within the $76.9 million that we are requesting for the Africa program, we will continue our current policy of financing one-third of the UNHCR's program in Africa, and will make a $7.9 million contribution to the African programs of the International Committee of the Red Cross. We will also provide up to $8 million for a variety of bilateral and voluntary agency initiatives to address those aspects of refugee problems that are not adequately dealt with by the involved international organizations.

Refugee assistance is provided by this government for both humanitarian and political purposes. These concerns are clearly combined in the Middle East where we are confronted with the human needs of the Palestinians and the Afghans as well as the worldwide political and economic implications of those problems. In order to deal with the needs of the Palestinians, the Department of State is seeking $72 million as a contribution to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). This organization, which provides basic services to the nearly 2 million Palestinian refugees, contributes towards a political atmosphere within the Mideast which is conducive to the long-term peace process. The proposed UNRWA contribution, an increase of $5 million over the FY 1982 appropriation, will help UNRWA deal with the effects of inflation and a constantly increasing population.

The Afghan refugees in Pakistan comprise the largest refugee population in the world. The Government of Pakistan is currently providing asylum to well over two million refugees who have fled Afghanistan into Pakistan during the past three years. Thousands of refugees continue to flee from Afghanistan because of the on-going fighting between Soviet forces and the Afghan resistance. Pakistan, I must add, serves as an outstanding example of a nation meeting its international responsibility to provide asylum to refugees. Pakistan has willingly granted asylum with the expectation that the international community will finance the care and maintenance of the refugees, a program expected to require approximately $110 million in FY 1983.

The Department of State requests $38 million to meet our share of this relief effort. Up to $33 million will be provided to the UNHCR to meet thirty percent of the cost of its care and maintenance program. The remaining $5 million will finance a variety of initiatives to meet essential health, relief and transportation needs not addressed through the UNHCR's program. Medical care for persons injured in the fighting in Afghanistan provided by the International Committee of the Red Cross (ICRC) is one example. The $5 million will be used to finance grants to the ICRC, private voluntary agencies and possibly the Government of Pakistan.

Latin America, until recently, was one of the few areas of the world not confronted with a major refugee problem. However, continuing civil disturbances in Central America are forcing increasing numbers of persons to flee across international frontiers to escape fighting and persecution. The Department of State is requesting $5 million to help meet the costs of the international efforts to provide assistance to refugees in Central America. These funds are $1 million less than the amount appropriated in FY 1982 due to nonrecurring costs in the 1982 program. However, given the volatility of the political situation in Central America, these needs are particularly difficult to project. It is clear that we must keep this problem under close review as events unfold.

The State Department requests $9,450,000 in FY 1983 for contributions to various activities of international organizations, an increase of $1 million over FY 1982. We propose to provide a total of $4.7 million to the Intergovernmental Committee for Migration (ICM) in support of that organization's assessed and operational budgets. We will also provide $3.75 million to the ICRC in support of the ordinary budget of the organization and the Political Detainee Protection and Assistance Program. In the case of the ordinary budget we will provide $2 million, an increase of $500,000 above the amount provided in the current year. We are seeking $1,750,000 as a contribution to the Political Detainee Protection and Assistance Program. Previously, U.S. contributions to this activity were obtained through reprogramming of other funds in this appropriation. However, because of the importance of this program as an expression of concern by this Administration for political prisoners, we are including this item in our FY 1983 appropriation request. We are also seeking $1 million, the same amount appropriated in FY 1982, to support programs of the UNHCR in areas of the world other than those dealt with in the geographic segments of this budget.

The administrative expenses of this program are expected to increase to $7,562,000 in 1983. This is a net increase of only $136,000. This request will finance the salary and operating costs associated with our staff of 98 permanent employees.

This budget request does not include a request for new funding for the United States Emergency Refugee and Migration Assistance Fund. Unobligated carryover balances available in that fund should be sufficient to finance appropriate responses to refugee and migration emergencies during FY 1983.

Mr. Chairman, as you are well aware, refugee situations frequently change between the time that this budget is developed and the new fiscal year. Should any such changes occur affecting our 1983 appropriation, we will attempt to reprogram funds to meet the higher priority needs. I wish to thank this subcommittee for its support during the past two years for our reprogramming efforts in order to reallocate our funds to meet new and changing requirements.

This brings me to the end of my prepared remarks. I, and my colleagues, will be pleased to answer any questions you may have.

### COMMITTEE VIEWS ON REPROGRAMING

Senator KASTEN. One of the things that we are concerned about is the amount of reprograming, as you heard earlier.

Ambassador Vine. I listened to that very carefully.

Senator KASTEN. Frankly, we are going to get a whole lot tougher on that because it is important. You know, there are only a few dollars to go around—and there is a lot of pressure on the budget, it is right now on the floor of the Senate—in each of these appropriations accounts, and the idea is that the Congress and the committees appropriate these amounts. When we appropriate them we mean that is where they should go.

There is a growing concern on behalf of not just this Appropriations subcommittee but Appropriations subcommittees in general about the apparent overuse or misuse of this whole reprograming process. So, I think we want to work with you as much and as feasibly, and as well as we can. But I think you have to understand that we are going to be demanding of you and other agencies that much more effort be made at the initial budget request.

Now, your statement indicates a significant decline in the number of dollars requested. Essentially in your prepared remarks you said that that decline is because of a decline in refugee admissions.

Ambassador VINE. Yes.

Senator KASTEN. Now, what concerns me is that this is similar to last year's testimony. I am hopeful that your estimates will not be as inaccurate this year as they were last year. As we saw last year, there was a great deal of reprograming, requests to transfer some of your funds to another function and another subcommittee. I hope that we are not going to go through that kind of effort this year.

### PROPOSED TRANSFER OF FUNDS

Now, with respect to that transfer request, is that transfer request before this subcommittee?

Ambassador VINE. We understand that you are concerned about the budgetary implications of this transfer. Our savings from the fewer than anticipated refugee admissions, due to the concentrated efforts we have made to apply strict criteria, accounts for one large part of the reduction. A shortfall of admissions from the Soviet Union that we could not contemplate also affected our program needs.

We returned $50 million to the General Fund because we were absolutely clear by midyear that we would not be running over and using that amount. We felt it important to return those funds.

Now, the administration was also faced with a need to improve protective security for American personnel serving overseas—you have heard Dr. Sayre on that point—and proposed funding these new security requirements through a transfer of $40 million of the $50 million from the refugee program to the Department's operational budget.

Another $10 million of that is being deferred, subject to a month-by-month review of refugee admissions. As far as the administration is concerned it makes sense to transfer funds from one account under State Department purview which has already been appropriated to meet urgent unforeseen needs in another account.

If the Congress wishes to meet its goal through some alternative strategy, such as rescinding funds appropriated for the refugee program while enacting a supplemental for newly requested security requirements, that would accomplish, as far as we are concerned, the same objective. We have no view about that.

Senator KASTEN. Well, that is precisely the point. You might not have any view about that but you have chosen to go the other route. You cannot transfer funds from the State, Justice, and Commerce subcommittee and from the Foreign Operations subcommittee back and forth. We are having enough trouble transferring and reprograming within our own subcommittees, account by account.

It is our feeling that this should be a rescission here and a supplemental appropriation in that account. We do not have the State Department budget on salaries and overhead, that is in State, Justice, and Commerce subcommittee, as you know.

So, this concerns us. If you do not have any strong feelings about it, as you said in the last sentence of your statement, that is the way it ought to be done. It is important that we keep some integrity in the overall process of appropriating these funds.

Ambassador VINE. Well, I will discuss that with my colleagues and report your very strong view. It is my understanding they have no problem whatsoever in accommodating your request.

## RADIO MARTI FUNDING

Senator KASTEN. In testimony before the State, Justice, and Commerce subcommittee last week, Assistant Secretary of State Thomas Enders, in response to a question, indicated that the money that they were seeking for Radio Marti had been offset by a budget amendment submitted last November, which reduced the refugee account. Are you aware of what he is talking about?

Our records show no such connection in any of the correspondence or justification materials regarding that budget amendment. I just want you to clarify that.

Ambassador VINE. May I say, my records coincide with yours, Mr. Chairman.

Senator KASTEN. You are aware of what he is talking about?

Ambassador VINE. I heard what he said. I reacted exactly the same way. I have looked into the fact. In November the administration forwarded a negative fiscal 1982 budget amendment to Congress which reduced funding for the refugee program by $26.6 million.

That came about because the consultations process which we just completed had indicated that fewer refugees were being admitted than the original fiscal year 1982 budget provided for.

Simultaneously, the administration transmitted a fiscal year 1982 budget supplemental of $10 million to fund Radio Marti. While these two changes were being transmitted to Congress in the same package and both affected the Department of State they were, as far as I was concerned and as far as most officials were concerned, two separate decisions.

Senator KASTEN. Well, there is evidently a link, according to Mr. Enders.

Ambassador VINE. Enders has made that link in his mind. I do not believe that the linkage is real, nor that it is shared by the Budget Committee of the Department of State.

Senator KASTEN. Have you attempted to straighten this out with Mr. Enders?

Ambassador VINE. We discussed it with him, yes.

Mr. MOSS. I might add also, Mr. Chairman, that after Mr. Enders made that remark, that remark was immediately corrected by a representative of the Comptroller's Office of the State Department who was attending the hearing, to break in the committee's mind that linkage; to say that there was no linkage between the two decisions.

### UNITED ISRAEL APPEAL

Senator KASTEN. Your request for the United Israel Appeal is the same as last year, despite a reduction in refugees being settled in Israel. Now, it is my understanding, though, that there is an amendment which was accepted in the State Department's authorization bill which would open this program up to refugees from other places besides the Soviet Union and Eastern Europe.

First of all, is that your understanding? Second, Do you have any idea of how this might affect the flow under this program, and particularly, where such additional refugees would come from?

Ambassador VINE. That is my understanding, Mr. Chairman. I think the most likely places where additional refugees would be from would be Iran and other places in the Middle East; or perhaps from Ethiopia. These are the major sources of Jewish refugees at the present time who emigrate to Israel.

### POLICY TOWARD IRANIANS

Now, the comment with respect to Iranians does require a bit of explanation because we do not at the moment have a refugee program for Iranians. But we are studying the possibility, and we have discussed that on a preliminary basis with the Judiciary Committee of the House and will be discussing it further with the Judiciary Committee of the Senate. There is agreement that the present system of a rather liberal humanitarian parole administered by the INS and a liberal visa policy is an unsatisfactory way of dealing with the situation. We will see if it is appropriate to convert a refugee program.

If such a program is established, then one of the sources of refugees would clearly be Iranian Jews, as well as some Christians.

Senator KASTEN. How is this going to affect the flow under this program? Do you initially assume there would be a reduction in refugees who resettle in Israel, therefore, I assume, your request is at a lower level?

Now, this amendment obviously is going to increase the number of refugees. Do you have any idea how specifically this is going to increase the number of refugees? Are we looking at having to do something about the reduction in this program as a result of this change, if in fact the program to allow refugees from other places gets all the way through the legislative process? Are we talking about a 10-percent difference, 20-percent difference? Is there any way of estimating?

Ambassador VINE. I am honestly not in a position at this time to make an estimate of what the flow would be. We are still trying to project what the flows of Jews from the Soviet Union will be. Those figures have dropped very, very sharply since September of last year. We have an estimate that will be just shy of 3,000 in this fiscal year.

I have no idea, honestly, until we study carefully the language as amended. As I say, the only suggestions I can offer are these two other areas.

I am sorry, I was going at it from the point of view of your expecting that figure to go down. I honestly cannot comment on that, one way or another. But we will not be seeking additional funds. If the figures do go up substantially, I think we would stay with that funding level that we requested, because the financing of that program is unusual, and it goes through UIA circuitously and is fundable.

Generally, the particular current levels of refugee admissions, or refugees going to Israel, are less important than the fact that there is a continuing and cumulative population. The level of funding is based by and large on that cumulative nature, so that the margin of arrivals do not change it very much.

### AFRICA PROGRAM

Senator KASTEN. You are decreasing the Africa program by $30 million, which is the amount that Congress last year transferred to the Agency for International Development for long-term projects. Has a like amount been asked by AID for long-term projects in fiscal year 1983?

Ambassador VINE. I do not think they have requested it. It was our anticipation when we put these figures together that they would not.

Senator KASTEN. Well, there is a contradiction here. The justification material says yes. It says the decrease between the 1982 appropriation and the 1983 request occurs because the administration has decided to transfer funding for long-term development programs for refugees in Africa from this appropriation to the Agency for International Development. Consequently, the request decreases in 1983 by $30 million.

Ambassador VINE. I am sorry, I do not believe that language was intended to mean that AID was positively requesting it. What we meant by that was that the responsibility for seeking the funding would probably be with AID. That is why it was not requested in this request, Mr. Chairman. I gather, in the meantime AID has made a determination not to seek it.

Senator KASTEN. Can you comment on that?

It does not say to seek or not seek, it says, "has decided to transfer funding."

Mr. PURCELL. If I might add there, Mr. Chairman, AID had requested for 1982 $20 million for long-term refuge immigration assistance. OMB had initially indicated a level of $10 million for

1983. The Congress, in its consideration of your bill last year provided $30 million with the provision that it be provided to us for transfer to AID.

The administration saw that the $30 million was provided in 1982. It was their assumption since we started late in fiscal 1982, that it would carry over and cover needs in 1983. Any subsequent request beyond 1983, according to the administration, OMB, would be requested through AID.

But their point is that since the Congress provided $30 million in 1982 to us in the migration and refugee assistance area, but with the requirement that it be transferred to AID, that the funding that had been planned for that activity over these 2 years has been covered by that appropriation.

Senator KASTEN. Well, this is not the time to straighten this out, but it does not seem to me that we are not coordinated here. It would be my hope that you could work with our staff to satisfy that apparent contradiction.

## UNRWA

We continue to receive reports that the number of Palestinian refugees receiving assistance under the U.N. Relief and Works Agency is inflated in order for the program to receive more funds. Evidently the funding of the program is based on the number of people who they can report to be serving.

Are you aware of such reports? Are these figures, in fact, being inflated, and what is your assessment of what is going on there?

Ambassador VINE. Can I ask my colleague, Mr. Moss to answer that question for you, Mr. Chairman?

Mr. MOSS. Mr. Chairman, obviously there are questions about the population of Palestinian refugees, as there are with many other groups of refugees around the world.

But the important thing to focus on is that the UNRWA program really addresses only two needs of the Palestinian people, that is elementary education for children and the delivery of health care to the resident population.

Both of these groups can easily identify the target population, and the number of teachers who are required to service that population. So, we really do not think that any possible overstatement of the overall Palestinian refugee population has much effect on the budgeting for the UNRWA program.

Senator KASTEN. What you are saying then is that the program is maybe being inflated, but you do not think that the inflation is affecting you directly?

Mr. MOSS. Well, if that was the impression I gave you, please let me correct it. What I am trying to say is that the services being provided by UNRWA go to a specific subsection of the UNRWA population. The overwhelming percentage of their expenses right now are for educational costs. They can carefully identify that population through the number of students enrolled in schools, and that is what we really pay for.

There does not seem to me to be any incentive to UNRWA in overstating the cost of that since it is something that can be carefully reviewed, as it is by our embassies in the field who report back to us on the nature of the UNRWA operation.

### ARAB CONTRIBUTION TO UNRWA

Senator KASTEN. How much are the Arab countries contributing to UNRWA?

Mr. MOSS. The OPEC contributions run at about 8 percent of the UNRWA budget a year, or roughly $15 million. Particularly in the case of Saudi Arabia there has been some support to help UNRWA meet its ongoing cash flow problems by special supplementary contributions. They are the single largest OPEC contributor.

Senator KASTEN. Eight percent for all the OPEC countries. What is our contribution?

Mr. MOSS. Our contribution runs between 25 and 30 percent of the UNRWA program.

Senator KASTEN. Thirty percent?

Mr. MOSS. That is correct, Mr. Chairman.

Mr. PURCELL. Mr. Chairman, the U.S. contribution to UNRWA, if you look back over 5 or 6 years ago, was running traditionally 35, 40, 50 percent. The effort has been trying to bring that down. We have been trying to get to the point where we bring that down and stabilize it around 30 percent.

Senator KASTEN. Why 30 percent? It seems to me that is still a disproportionate share.

Mr. PURCELL. Well, you know, the effort has been—and I think you recall—a couple of years ago the Congress put in a provision that there had to be certain amounts of funding raised by the OPEC countries before our moneys would be released.

Our efforts have clearly been to try to get the OPEC countries to increase their contributions. In fact, the UNRWA Commissioner General is traveling throughout this area now trying to increase those levels. We are clearly supporting that. The State Department has taken a very active role in supporting his fundraising efforts with the Arab countries.

Our efforts have been to try to bring the U.S. contribution down. We would like to get it even lower than 30 percent if that were feasible. But we have to bring in other sources of funding, and efforts at a very high level are under way to do that presently.

Senator KASTEN. As you know, there are different ways to change percentages, and one is by having other people contribute more, and one is to have us contribute less. I think that those percentages are clearly disproportionate, 8 percent to 30 percent. That is simply not acceptable.

Ambassador VINE. It is my understanding, Mr. Chairman, that based on communication I recently had from Mr. Rydbeck, the Director General of the United Nations Organization concerned, that he has gotten some promises of additional support from countries in the Middle East. I must say here, unspecified. I do not want to mislead you, I just do not know.

But I have the impression that we are talking about Arab countries concerned. Because of a significant shortfall they were seeking an additional contribution from us which we refused. I think it will tend to bring that percentage down again somewhat more this year.

As soon as we have data on that, I will get it to you.

[The information follows:]

## CONTRIBUTIONS TO UNRWA

We will be unable to supply that information until the ongoing effort of the UNRWA Secretariat to obtain more generous contributions to UNRWA is completed and contributions are announced. Unfortunately, we are unable at this time to estimate exactly when that will take place. However, we are including a list of the contributions for calendar year 1981, the most recent period for which we have data from UNRWA.

CONTRIBUTIONS BY GOVERNMENTS (1981)
(in U.S. dollars)

| | | % |
|---|---:|---:|
| ARGENTINA | 10,000 | - |
| AUSTRALIA | 571,691 | .33 |
| AUSTRIA | 196,500 | .11 |
| BAHRAIN | 15,000 | - |
| BELGIUM | 1,942,543 | 1.13 |
| BRAZIL | 10,000 | - |
| CANADA | 6,146,694 | 3.59 |
| CHILE | 3,500 | - |
| CHINA, PEOPLE'S REPUBLIC OF | 50,000 | .03 |
| CYPRUS | 2,239 | - |
| DENMARK | 3,287,432 | 1.92 |
| EGYPT | 8,580 | - |
| EUROPEAN ECONOMIC COMMUNITY | 25,086,988 | 14.67 |
| FINLAND | 377,870 | .22 |
| FRANCE | 1,930,224 | 1.13 |
| GAZA AUTHORITIES | 103,241 | .06 |
| GERMANY, FEDERAL REPUBLIC OF | 5,807,749 | 3.39 |
| GHANA | 5,200 | - |
| GREECE | 35,000 | .02 |
| HOLY SEE | 12,500 | - |
| ICELAND | 17,500 | .01 |
| INDIA | 16,290 | .01 |
| INDONESIA | 7,500 | - |
| IRAN | 30,000 | .02 |
| IRAQ | 3,500,000 | 2.04 |
| IRELAND | 282,775 | 0.16 |
| ISRAEL | 468,691 | 0.27 |

| | | % |
|---|---|---|
| ITALY | 1,167,065 | 0.68 |
| JAMAICA | 3,000 | - |
| JAPAN | 10,862,385 | 6.35 |
| JORDAN | 740,003 | 0.43 |
| KUWAIT | 2,100,000 | 1.23 |
| LEBANON | 62,860 | .03 |
| LIBYAN ARAB JAMAHIRIYA | 4,250,000 | 2.48 |
| LUXEMBOURG | 10,712 | - |
| MALAYSIA | 5,000 | - |
| MALDIVES | 1,500 | - |
| MALTA | 1,012 | - |
| MAURITIUS | 2,000 | - |
| MEXICO | 4,941 | - |
| MONACO | 1,010 | - |
| MOROCCO | 59,221 | .03 |
| NETHERLANDS | 2,202,219 | 1.28 |
| NEW ZEALAND | 96,681 | .05 |
| NIGERIA | 20,000 | .01 |
| NORWAY | 4,680,836 | 2.73 |
| OMAN | 35,000 | .02 |
| PAKISTAN | 18,665 | .01 |
| PANAMA | 500 | - |
| PHILLIPPINES | 5,000 | - |
| PORTUGAL | 10,000 | - |
| QATAR | 500,000 | .29 |
| ROMANIA, SOCIALIST REPUBLIC | 3,300 | - |
| SAN MARINO | 4,195 | - |
| SAUDI ARABIA | 6,200,000 | 3.62 |
| SINGAPORE | 1,500 | - |

| | | % |
|---|---:|---:|
| SPAIN | 1,000,000 | .58 |
| SRI LANKA | 1,000 | - |
| SUDAN | 6,020 | - |
| SURINAME | 1,000 | - |
| SWEDEN | 10,176,848 | 5.95 |
| SWITZERLAND | 4,142,328 | 2.42 |
| SYRIAN ARAB REPUBLIC | 168,107 | 1.00 |
| THAILAND | 17,390 | .01 |
| TRINADAD AND TOBAGO | 4,975 | - |
| TUNISIA | 9,815 | - |
| TURKEY | 20,000 | .01 |
| UNITED ARAB EMIRATES | 800,000 | .46 |
| UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND | 10,026,938 | 5.86 |
| UNITED STATES OF AMERICA | 62,000,000 | 36.25 |
| VENEZUELA | 10,000 | - |
| YEMEN | 2,000 | - |
| YUGOSLAVIA | 25,000 | .01 |
| TOTAL | 171,385,733 | 100.00 |

## U.S. COORDINATION

Senator **Kasten**. Last year the U.S. Coordinator for Refugee Policy had not yet been appointed. Has a Coordinator for Refugee Policy been appointed now?

Ambassador **Vine**. Yes, Mr. Eugene Douglas, H. Eugene Douglas, Ambassador-at-Large. He was confirmed by the Senate, I believe, in February. He has taken up his duties and is beginning to perform his function.

## CENTRAL AMERICA

Senator **Kasten**. You mentioned in your testimony the problems in Central America. And yet, you have a decrease in Central America. How do you justify that decrease? Are we setting ourselves up for a potential shortfall there?

Ambassador **Vine**. One major reason for that is that the UNHCR program, particularly in Honduras this year, has involved certain capital costs—construction and so forth, the establishment of new facilities which will not be repeated next year. So, even if the population stays the same—I am afraid I cannot be sure of that—but if the population stays the same, we think that our figures will be somewhat lower.

We are awaiting the data for UNHCR for next year. So, our estimates are based on what we think the situation would be, not necessarily what UNHCR thinks the situation will be. There may be a change in the situation, a change over which we have no control.

Senator **Kasten**. Some people at Georgetown University have come up with some innovative ideas concerning resettlement in Latin America, and another effort to try and get the countries in South America, to take a harder look at the basic causes of refugee situations.

Are you familiar with the ideas in this study, and have you had a look at some of their proposals? Can we expect that you would consider funding them?

Ambassador **Vine**. Well, Father Bradley has mentioned these proposals and the study to me in the abstract. I still have not seen a detailed prospectus of what the project would be. But certainly we would be prepared to give it sympathetic consideration.

Senator **Kasten**. Thank you.

Ambassador **Vine**. That is, of course, subject to the details of their proposal.

Senator **Kasten**. Mr. Ambassador, thank you.

That concludes our hearing this afternoon. We may be back to you if we need additional information during the discussions.

I appreciate your testimony and look forward to working with you in the coming year.

Ambassador **Vine**. Thank you very much, Mr. Chairman.

## SUBMITTED QUESTIONS

Senator **Kasten**. Our record will remain open for 2 weeks, during which time members of the subcommittee may submit questions to be answered for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### THIRD COUNTRY RESETTLEMENT

Chairman Kasten: Ambassador Vine, as far as we can figure out, nothing has been done with reference to third country resettlement in Latin America and South America, despite offers by some countries in those areas to resettle refugees.

Why is that?

Ambassador Vine: In the past several years, there have been expressions of interest by some Latin American countries, in particular Suriname and Belize, to resettle Indochinese refugees. In the case of Suriname, refugee resettlement project was initiated by the UNHCR, with the private voluntary organization World Relief as an operational partner. Feasibility studies were undertaken to test for soil fertility and other factors important to the resettlement effort. Unfortunately, subsequent work on the project was brought to a standstill by a change of government in February 1982. The current Government is reassessing a number of programs including Indochinese resettlement. At the present, there do not appear to be any hopeful signs for movement in this project.

The Government of Belize at one time expressed interest in the resettlement of Indochinese. In view of the relatively large number of Central American refugees that have entered Belize, the Government has declined to pursue Indochinese resettlement at this time. They are interested in the settlement of migrants from Haiti. The Intergovernmental Committee for Migration is currently conducting a feasibility study in connection with this proposal.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### REFUGEE RESETTLEMENTS

Senator Inouye: Mr. Ambassador, in your proposed statement, you note that "resettlements to the U.S. are running lower than the FY 1982 consultations level provides and the enacted appropriation level finances".

The FY 1982 consultations level for U.S. refugee admissions was 140,000. What do you now estimate the FY 1982 total will be?

The FY 1982 appropriation for U.S. refugee admission was $221,139,000. What amount is actually required to finance the estimated number of refugee admissions in FY 1982?

Why should the Congress accept your estimate of 103,500 U.S. refugee admissions for fiscal year 1983?

Is this not a program where the Congress can effect savings for fiscal year 1983?

Ambassador Vine: Senator, our current estimate is that the United States will admit between 100 and 110,000 refugees in FY 1982. This is well below the consultation ceiling of 140,000 provided for this year. Consequently, spending for the program is estimated to require about $156 million, as compared to the over $221 million appropriated. The $65 million in savings has been the subject of two deferrals, as well as being the source of funds reprogrammed to meet high priority needs which have arisen during this year.

As I noted in my testimony, the actual ceiling on refugee admissions will be determined by the President following consultations with the Congress as required by the Refugee Act of 1980. The admission ceiling of 103,500 contained in the budget request represented our best estimate of the likely requirements for FY 1983 admissions when it was developed. Conditions do change in the months between the time that the budget is prepared and the consultations process takes place, and these changes could well result in the admission ceiling being changed, or the admission opportunities being allocated in a different pattern than the budget request provides. Should these changes result in a lower admission ceiling than this budget was based upon, I am confident that the funding request for the Migration and Refugee Assistance appropriation will be adjusted accordingly.

## PRIORITY SIX POLICY

Senator Inouye: Mr. Ambassador, in the context of your statement that, "the downward trend in admissions is being managed in a way that is consistent with the humanitarian traditions of the U.S.," would you comment on the decision to restrict the categories of Indochinese refugees who are eligible for resettlement in the U.S.?

How many refugees will be affected by this decision?
I understand that about 15 "boat people" arrive each day in Hong Kong, half of whom would be considered ineligible for resettlement in the U.S. under the new policy.

What will become of these people?

Will Hong Kong provide resettlement opportunities?

Is this "downward trend in admissions" being managed in a way which encourages a reduction in your staff?

Ambassador Vine: In response to your general question concerning our decision to cease processing for U.S. admission those Priority Six refugees arriving in first asylum after April 30, I have attached a background paper for the record which was prepared in the Bureau for Refugee Programs several weeks ago, at the time the decision was made. I will treat your specific questions below.

On the basis of past experience, we estimate that approximately one-third of the refugees who arrive in countries of first asylum other than Hong Kong will fall under Priority 6. For Hong Kong, about two-thirds will fall under that priority. The decision not to process Priority 6 cases affects only those who arrive in first asylum after April 30, 1982. Those refugees already in first asylum camps on or before that date are being processed as before. Because our projections of overall arrival rates are only rough estimates, it is impossible to state with confidence exactly how many refugees might be affected by the decision; assuming a continuation of arrivals at about the rate of 4,000 monthly, approximately 1,500 refugees are likely to be found ineligible for U.S. resettlement because they are classified no higher than Priority 6.

As noted earlier, if past experience holds, about two-thirds of those refugees arriving in Hong Kong after April 30 will be ineligible for the U.S. resettlement program. These people will be presented by the UNHCR to representatives of other resettlement countries as are all refugees. Hong Kong itself will probably absorb a small percentage of these individuals, but most will ultimately have to be resettled abroad. Generally speaking, we regard the UNHCR, acting through and with the Hong Kong authorities, and the British Government as the principal parties in the resettlement of those refugees in Hong Kong who are not eligible for admission to the U.S. I wish to emphasize at this point, however, with respect not only to refugees in Hong Kong but also in all countries of first asylum, that our policy concerning Priority 6 cases does not detract from the status of these people as refugees and, thus, as persons deserving and requiring protection and assistance from the international community acting through the UNHCR. Also, our decision not to process them for U.S. admission in no way is intended to suggest that they did not flee their homelands due to politically motivated persecution or that they need not fear such persecution should they return to their countries of origin.

In response to your question concerning the "downward trend in admissions" being managed in a way which allows a reduction in our staff, I would like to state that the management of the Refugee Program emphasizes use of a minimum of positions to oversee refugee protection, relief and resettlement, leaving operational programs to be carried out by international organizations and private voluntary agencies. Thus I have reduced our requirements to a worldwide ceiling of 98 positions from the initial 119 requested for FY 1982. After thoroughly reviewing the projected workload of the Refugee Affairs Sections of our various embassies in Southeast Asia, I have concluded that since the Southeast Asian refugee processing workload has decreased, and is expected to continue to decline as more restrictive criteria for U.S. resettlement come into effect, we can transfer four positions from that area to meet other urgent needs at other posts abroad, as well as here in Washington. I must emphasize that eliminating positions in Southeast Asia as a result the lower rate of U.S. refugee resettlement will not automatically reduce the overall position requirements of this Bureau since it is clear that the Refugee Program will have to assign personnel to oversee refugee relief operations in areas such as Pakistan, Africa and Latin America.

## ETHIOPIAN ASYLUM POLICY

Senator Inouye: Mr. Ambassador, under the program for resettlement assistance, several alternativies to resettlement in the United States are discussed.

Does it apply to Ethiopian refugees who are currently in the United States?

On January 26, 1982, in a news item bearing the headline "U.S. Pushing Ethiopians To Go Home", the Washington Post reported on an apparent policy inconsistency.

What is the current policy of the U.S. Government with respect to Ethiopians who wish to remain in the United States?

Does the State Department believe that the fears of these people that they will suffer if forced to return to Ethiopia are unfounded fears?

Ambassador Vine: Senator, the current U.S. policy towards Ethiopians living in the United States is to end the long-standing policy of providing an "extended voluntary departure status". This means that Ethiopian nationals continue to be free to apply for asylum here, but that if the asylum applications are not approved that the United States may deport the applicant. The requirement that must be met by an asylum applicant is the establishment that the applicant is unable or unwilling to return to his or her country of nationality or habitual residence "because of persecution or a well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group. or political opinion". These applications are carefully reviewed by both the State Department and the Immigration and Naturalization Service. The State Department also frequently seeks the advice of our embassy,through classified channels, on these asylum applications cases as we prepare our advisory opinion for the Immigration and Naturalization Service.

I must emphasize that no Ethiopian has yet been returned involuntarily to Ethiopia. We continue to monitor the situation in Ethiopia closely, particularly in connection with our responsibility to provide advisory opinions to the INS on asylum cases. We are also cognizant of the Congressional concerns on this issue, and will consider those concerns throughout this process of adjudicating the legal status of Ethiopians who are currently in the United States.

You also asked if the funds we are seeking for "resettlement assistance activites" would apply to Ethiopians who are currently in the United States. These funds are sought so as to deal with refugees and migrants outside of the United States, particularly refugees who have already received asylum in another nation. For example, these funds might be used to finance a loscl resettlement project for refugees or migrants in Latin America. We would not use these funds to provide assistance to refugees or persons granted asylum in the United States.

## DURABLE SOLUTIONS TO REFUGEE PROBLEMS

Senator Inouye: Mr. Ambassador, the Congressional Presentation Document states, "The goal of U.S. refugee assistance is to facilitate relief in place and other durable solutions not involving resettlement to third countries, particularly the United States".

What does this statement mean?

In particular, what does "in place" mean? Is that a reference to countries of first asylum?

Does this not represent a departure from prior State Department concerns regarding the need to relieve pressures on countries of first asylum?

What is meant by "durable solutions"?

Can you provide a specific reference to a "durable solution" which will be funded under U.S. refugee assistance in fiscal year 1983?

Is there no contradiction between the statement that "the goal of U.S. refugee assistance is to facilitate relief in place and other durable solutions" and the Administration's decision not to seek additional funding in fiscal year 1983 for longer-term projects to aid refugees and displaced persons in Africa?

You state that "It was recognized that such longer-term projects are properly the responsibility of the Agency for International Development".

Has AID, in fact, requested fiscal year 1983 funding for longer-term projects to aid refugees and displaced persons in Africa?

I understand that the actual obligation of the $30 million appropriated by Public Law 97-121 for "resettlement services and facilities for refugees and displaced persons in Africa" has been withheld pending fiscal year 1982 authorization of refugee assistance.

Is that correct?

If so, have any preliminary preparations been done to facilitate the obligation of these funds, once authorized?

What is the current situation with respect to the $5 million appropriated by Public Law 97-121 for persons displaced by strife in El Salvador?

Ambassador Vine: Senator, the State Department's policy concerning refugee assistance is to attempt to resolve the refugee problems without relying on massive third country resettlement programs. Since there are many nations in the world which willingly provide asylum to refugees, without conditioning the provision of asylum on eventual resettlement to a third country, this goal is not as difficult to achieve when viewed from a world-wide perspective, as it has been in dealing with certain localized refugee problems.

When we talk about dealing with a refugee problem "in place" what we mean is to deal with the problem in the area where it initially occurs. Therefore, we strongly prefer dealing with refugee problems through the provision of relief in the nation of asylum, voluntary repatriation to the nation of origin, or local resettlement rather than through third country resettlement programs. Unfortunately, not all refugee problems can be dealt with "in place" and limited third country resettlement programs, particularly for refugees from Southeast Asia, Eastern Europe and the Soviet Union still remain necessary.

This policy is not a departure from our policies. The State Department has always preferred to deal with a refugee problem in the area where it arose; the problem has been that the last several years have seen the emergence of several refugee problems which required third country resettlement as the only viable solution.

When we use the term "durable solutions" to a refugee problem, we are talking about the basic strategies that the United Nations High Commissioner for Refugees (UNHCR) pursues in resolving a refugee problem. Once relief assistance for the refugees is arranged, the UNHCR first attempts to arrange for the voluntary repatriation of the refugees to their country of origin. These efforts at voluntary repatriation generally occur after changes within the country of origin resolve the problem that caused the refugees to flee in the first instance. If voluntary repatriation is impossible, the UNHCR then attempts to arrange for local settlement in the nation of asylum or the surrounding region. Only after both of these two initiatives fail does the UNHCR even consider resorting to its third and least preferable "durable solution" -- resettlement in third countries.

Since the U.S. both resettles refugees in this nation and contributes substantial funds to the UNHCR, we already help finance all types of "durable solutions".

Let me now turn to the issue of the $30 million appropriated by the Congress for "resettlement services and facilities in Africa". First, since the Congress appropriated $30 million for this activity in 1982, and since the obligation of the funds has been delayed because the program is not yet authorized, the real benefits from the appropriation will occur in 1983. Therefore, the decision was made not to seek for FY 1983 a follow-on appropriation for this specific program. In a general sense, however, the types of activities which the State Department will fund with the $10 million that the Refugee Program is seeking for "resettlement assistance activities" are consistent with the type of initiatives funded with the "resettlement services and facilities" funds. While the $10 million is a world-wide figure, the types of programs funded with that money -- permanent local resettlement, particularly -- are similiar to the activities funded with the FY 1982 appropriation.

The problem that we have had in obligating these funds is that Section 15(a) of the State Department Basic Authorities Act of 1956 requires that an authorization bill be enacted before appropriated funds are obligated. Since we lack an enacted authorization bill, we have been forced to rely on the FY 1982 Continuing Resolution as a source of both authorization and appropriation. Since the "resettlement services and facilities" program is a new activity, we have been unable to finance it under the terms of the CR. We remain optimistic that the State Department's authorization bill will soon be enacted, and the State Department and AID are cooperating closed to identify projects and programs to fund with this appropriation once it becomes available.

Finally, you have asked for the status of the $5 million appropriation for assistance to refugees and displaced persons resulting from the conflicts within El Salvador. The Refugee Program has contributed $2 million of this amount to the UNHCR to help finance its programs for refugees who have fled from El Salvador. The remaining $3 million was allocated to AID to help finance a program for internally displaced persons in El Salvador. The AID program aims at generating employment opportunities for the internally displaced.

## PER CAPITA REFUGEE EXPENDITURES

Senator Inouye: Mr. Ambassador, based on the figures which appear in the Congressional Presentation Document, I calculate that there are 259,500 refugees in Indochina. The Administration is requesting $29,400,000 to provide relief to these refugees. Again, based on your figures, I calculate this to be $113.29 in assistance per refugee.

According to your prepared statement, there are two million Afghan refugees in Pakistan. For these refugees, the Department of State requests $38,000,000, or $19 per refugee.

How do you account for this difference in assistance to individual refugees?

Does the Administration regard Afghan refugees as being less worthy of U.S. assistance?

Ambassador Vine: The Administration certainly does not consider that Afghan refugees are less worthy of assistance than Indochinese refugees. While the per capita differential appears to be striking that are several factors which help account for this.

First, on a technical level, the $29.4 million requested for Indochina relief includes not only care and maintenance for Indochinese refugees in UNHCR camps, but also relief for over 200,000 additional refugees on the Thai-Kampuchean border, who are being assisted by the United Nations Border Relief Operation.

Second, and more important, the Refugee Program plans for its contributions based on an appropriate share of the UNHCR or other international organization program for a particular relief need. The costs of providing adequate care for refugees differs from group to group, chiefly depending on the cost of living in the host country, the standard of living appropriate to meet the essential needs of the particular group, and the cost of delivering these services. Also relevant is the degree to which the host government itself assumes part of the cost for refugee relief.

In the case of Pakistan, for example, the Government of Pakistan has itself shouldered a large percentage of the costs of relief, including a large portion of the inland transportation of relief goods. Pakistan may not be able to continue this practice without additional international assistance in the future. It also bears noting that Pakistan has received substantial bilateral assistance from other Islamic nations rather than through the UNHCR program.

## KHMER RELIEF

Senator Inouye: Mr. Ambassador, how much will the United States contribute to the Khmer Relief program in fiscal year 1982?

What is the basis for the statement in the Congressional Presentation Document that, "By the end of FY 1982 extensive Emergency Relief aid to persons within Kampuchea should no longer be necessary"?

What is the nature of the assistance being provided to the Khmer who are still along the Thai-Kampuchean border? Is it care and maintenance, or is the program providing the Khmer with the means to become self-sufficient?

Ambassador Vine: The United States will contribute up to twenty million dollars for Khmer relief in fiscal year 1982. We have already pledged ten million dollars to the United Nations Border Relief Operation (UNBRO) for the care and maintenance of the two hundred thousand refugees on the border, as well as for some minimal assistance, mostly food, to needy persons in the interior of Kampuchea.

The statement which you quoted refers to the phasing out of that portion of the international relief effort addressed to aid Kampucheans within the country, as opposed to those refugees in camps along the border. The program of assistance to the interior was initiated along with the border effort in 1979 at the height of the crisis when it was necessary to send food into Kampuchea to staunch the flow of thousands of starving Khmer into Thailand. Continuing serious food shortage problems in Kampuchea have resulted in ongoing food assistance over the past two years, although this assistance has been substantially reduced as conditions have improved. Our position has been that such assistance should be discontinued as soon as it is evident that Kampuchea can meet its own food requirements so no food deficit situation would stimulate new refugee flows.

With regard to assistance to the border population, the program is primarily one of care and maintenance, providing only the most essential food, shelter, and medical requirements, and rudimentary primary school education for children. There are a few programs, representing a small proportion of the UNBRO budget, which provide other social services, including some small vocational training programs. However, the border setting does not provide a promising setting for self-sufficiency among the refugee population there, given the restrictions of the camps and the lack of land and water resources for becoming self-sufficient in food production.

## REFUGEE PROCESSING CENTER

Senator Inouye: Mr. Ambassador, how many refugee processing centers (RPCs) are the United States supporting and where are they located?

Do other countries contribute to the support of these RPCs? If so, how much?

The Congressional Presentation Document is unclear in its references to the destination of refugees in the RPCs.

Are they all awaiting resettlement in the United States?

Ambassador Vine: There are two RPCs, one on the Bataan peninsul in the Philippines, and the other on Galang Island, Indonesia.

The RPCs are funded out of the UNHCR's General Program for care and maintenance of refugees in Southeast Asia. The U.S. pays for thirty percent of this program, while other donors contribute the remaining 70 percent.

In agreeing to the establishment of the RPCs, both Indonesia and the Philippines required that they be utilized only by refugees already guaranteed third country resettlement. Approximately three percent of the 105,000 refugees who have gone to the RPCs have been resettled in nations other than the United States. The Federal Republic of Germany and Norway have both been users of the RPCs, and have operated their own language and cultural orientation programs. Recently, the French moved the first thousand of a total of several thousand Khmer refugees to the Galang RPC for language and orientation. As in the case of the United States, these various language and orientation programs are funded by the nation of resettlement.

At the end of May, 1982, a total of 18,091 refugees were in the RPCs. Those undergoing English language training and cultural orientation prior to resettlement in the United States totalled 16,491. The other 1,600 had been guaranteed resettlement by other countries.

## ANTIPIRACY PROGRAM

Senator Inouye: Mr. Ambassador, on March 15 of this year, the Department of State notified the Committee of its intention to reprogram $440,000 in support of the U.N. High Commissioner of Refugee's Antipiracy Program in Southeast Asia.

Can you tell the Committee how effective this program has been?

Have any pirates been taken into custody and convicted of their crimes? Under whose jurisdiction have they been tried?

Are pirate attacks on refugees fleeing to safety a continuing problem?

These attacks take place, for the most part, in the Gulf of Thailand. Has Thailand been a cooperative partner in the effort to suppress piracy?

How much are you budgeting in fiscal year 1983 to support the UNHCR's efforts?

Ambassador Vine: The U.S. has committed a total of $1.04 million, including the $440,000 reprogrammed in March, to an antipiracy program to be undertaken by the Royal Thai Government under sponsorship of the UNHCR. As of early June, the UNHCR and RTG reached agreement on the details of the program. The UNHCR has submitted this agreement to the U.S. and other donor governments for approval and, in the absence of objection from the donors, will sign a formal document initiating the program.

Under the UNHCR plan, pirates who are apprehended would be subject to the jurisdiction of Thai courts. This was also the case under the former U.S. - Thai Antipiracy Program which ran from February through September of 1981, during which time sixteen Thai nationals were arrested and charged with acts of piracy. Of this number, ten were convicted and jailed with minimum sentences averaging eleven years. Four cases are still pending and two others were dismissed. Beyond those meager statistics, however, is the deterrent value of such a program. It is, of course, impossible to quantify what didn't take place because of fear or uncertainty engendered by the possibility of detection.

Pirate attacks against refugees remain a serious humanitarian problem. UNHCR statistics indicate that more than 80 percent of the refugee vessels reaching Thailand are victimized by pirates. Each boat attacked is, on the average, hit on three separate occasions.

Within the limited resources available to it, the Thai Government has been a responsible partner in the antipiracy effort. Thai leaders are well aware of the damage done by the pirates to Thailand's image internationally. At the operational level, Royal Thai Navy officers are anxious to resume antipiracy activity under the UNHCR plan.

We have not earmarked any funds for this program in FY-83. The UNHCR program, will provide funding for at least a year's operations, taking us through most of FY-83.

## RECEPTION AND PLACEMENT

Senator Inouye: Mr. Ambassador, the fiscal year 1983 request for funding of resettlement grants to private and voluntary organizations is $54,050,000.

I assume that the fiscal year 1982 appropriated level was in excess of the amount required for resettlement grants because of declining refugee admissions. Is that correct? If so, by how much?

The $54,050,000 is based on an admissions figure of 103,500.

Is there not an opportunity for further savings here? If the consultation level is set at a number less than 103,500, how will you apply the resulting savings?

Ambassador Vine: Senator, the initial FY 1982 budget request for this program funded the admission of up to 187,000 refugees. Since the consultations level eventually provided for the admission of not more than 140,000 refugees, the President proposed, and the Congress accepted, a substantially lower funding level for this program. Subsequently, actual admissions have been lower than the consultations ceiling provides. This, in turn, allowed the President to propose a transfer of $40 million away from this account and the deferral of an additional $10 million. The total effect of all of these actions has been to reduce spending for refugee admissions by $100 million below the level initially proposed by President Reagan for FY 1982. Of this total saving of $100 million, over $41 million reflects reduced spending for reception and placement, while the balance of the savings reflect reductions in expenditures for refugee processing and transportation.

You also asked whether similiar savings should be anticipated for FY 1983. First, I should note that the actual ceiling on refugee admissions will only be determined by the President following consultations with the Congress as mandated by the Refugee Act of 1980. Should these consultations provide for a lower refugee admissions ceiling than was funded in the FY 1983 budget request, I am confident that the spending request will be adjusted downward, although some of the potential savings may have to be reallocated to finance needed relief assistance to refugees. I must add, however, that since we have not yet undertaken these consultations with the Congress it is too early to either prejudge their outcome, or estimate the budgetary implications resulting from the consultations.

## PREVENTING REFUGEE PROBLEMS

Senator Inouye: Mr. Ambassador, a major goal of the U.S. Refugee Program, as stated in the Congressional Presentation Document, is "To discourage through diplomatic means the political, economic and social practices of other Governments that cause people to flee their homelands".

Can you provide a specific reference to an activity for which funding is sought in FY 1983 and which supports this goal?

Ambassador Vine: Senator, this goal of the Bureau for Refugee Programs is one that is sought through the foreign policy-making process of the United States, not just through the efforts of the bureau that I direct. The Bureau for Refugee Programs was established to deal with the human and operational consequences of refugee flows. However, in an ideal world, we would like not to have any refugee problems present. One of the means to reach that goal is to resolve through bilateral or multilateral diplomatic channels the practices of nations which create refugee problems. While funds are not sought in this budget which would finance these diplomatic undertakings, the State Department and the other foreign affairs agencies stand ready to undertake diplomatic initiatives aimed at resolving the underlying problems which cause refugee problems before people are forced to flee their homeland.

## RESETTLEMENT ASSISTANCE

Senator Inouye: Mr. Ambassador, with respect to funding of relief assistance for refugees, you say the Department of State is seeking $20,435,000 less than the amount appropriated for FY 1982 and that this reduction is a reflection of "continued reductions in the number of Indochinese refugees in Southeast Asia..."

Why, then, are you seeking a $9 million increase in the refugee resettlement assistance program? If the number of refugees is declining, why do you seek increased funding?

The Congressional Presentation Document states, "Because of the major resettlement effort by the U.S. and other Western nations, the non-Communist nations of Southeast Asia have maintained liberal policies of first asylum".

If this $9 million increase is to be used for local resettlement, what effect will this program have on the policies of the nations of Southeast Asia regarding first asylum?

Ambassador Vine: It is true that the numbers of refugees requiring care and maintenance under the UNHCR in Southeast Asia is much reduced, also reducing the number of refugees in need of resettlement opportunities. Many of these refugees cannot be offered the opportunity to resettle in the United States. Other Western nations which have resettled large numbers of Indochinese refugees are also for domestic reasons reducing their levels of resettlement. The $10 million requested for resettlement assistance is intended to be used to stimulate new resettlement opportunities--not just for Indochinese, but also for other groups--especially in developing countries which have not traditionally resettled refugees.

Should any countries of first asylum, which have not been willing to consider resettlement in place, become willing to entertain that possibility, the United States would be able to draw on these funds to assist that country with some initial resettlement costs. Since these funds are available for use worldwide, we do not see this request as having any adverse effect on the willingness of the nations of Southeast Asia to continue to extend asylum. On the contrary, it should be an indication that the United States supports the pursuit of resettlement opportunities even as we must reduce our own rate of resettlement.

## QUESTIONS SUBMITTED BY SENATOR D'AMATO

### REFUGEES -- WESTERN HEMISPHERE

Senator D'Amato: I understand that you estimate there will be some 2,000 refugees admitted from the entire Western Hemisphere and Africa.

Ambassador Vine: The 2,000 estimate is for the Western Hemisphere during FY 1983.

Senator D'Amato: Given the situation in El Salvador, Haiti, Nicaragua, and many other small impoverished or strifetorn nations, is this a realistic appraisal of the situation?

Ambassador Vine: We believe, for several reasons, that our estimate realistically reflects the conditions in the area as they are likely to be in FY 1983. In developing estimates for future year admissions, we project the number of refugees likely to be present in the area during the affected time period, and determine what portion of that population is likely to require resettlement in the United States. Our experience in the area suggests that few refugees from the Western Hemisphere are likely to require resettlement in the United States in FY 1983. The Latin American tradition of granting asylum and refuge from persecution to citizens of area countries has been upheld in the past year and is likely to continue. At the present time, several countries in the area, especially Honduras and Costa Rica, are willingly providing refuge to tens of thousands of refugees.

It is true, however, that large numbers of nationals from area countries attempt, and often succeed, to enter the United States illegally in search of improved economic opportunities. Of the groups mentioned, this is especially true of Haitians and Salvadorans. This administration does not believe, however, that the solution to the problem of illegal migration is the admission of economic migrants as political refugees. To so do would violate the letter and spirit of our immigration and refugee law, and do a severe injustice to those persons who truly flee from persecution and oppression.

Senator D'Amato: Furthermore, the Administration continues to favor interdiction and negotiations with those nations to halt the flow of refugees. I understand that the interdiction cost the U.S. Government over $1 million a month but the Coast Guard stopped possibly 50 refugees in six months. Doesn't this seem like a shameless waste of money?

Ambassador Vine: Before discussing the "cost effectiveness" of the interdiction program, I would like to set the record straight and indicate that this administration is not now, nor has ever been, involved in the interdiction of refugees. The interdiction program currently implemented by the Coast Guard is designed to prevent the entry into the United States of undocumented migrants attempting to enter the United States illegally. Considerable precautions are taken by the Immigration and Naturalization Service to ensure that only those persons without any legal claim to enter the United States are prevented from doing so by the interdiction program. Regarding the cost effectiveness of the program, I suggest that its value depends on whether you believe in the use of preventive measures. Although approximately 200 undocumented aliens were stopped by the Coast Guard, the true effectiveness of the program must be measured against how many aliens might have undertaken to enter the United States illegally had the Coast Guard not been present to discourage them. During the 12 months preceding the deployment of the Coast Guard, an average of over 1,500 Haitian aliens entered the United States each month. Leaving aside non-quantifiable items such as sovereignty, respect for the law, the saving of lives, etc., I suggest that the welfare costs the Federal Government would have incurred in providing assistance to the illegal aliens who would have arrived during the period in question absent the interdiction program would have far exceeded the cost of the Coast Guard effort.

Senator D'Amato: Another example of misguided refugee policy is the concept of detention. One source put the cost of detaining 3,200 refugees over two years at 150 million dollars. Now that amounts to close to $50,000 per refugee. Is there some rational explanation for this in light of a quota of only 2,000 for 1983 from the entire hemisphere? Wouldn't it actually be cheaper to either let them in to stay or fly them home first class on any American airline and put them up in a nice hotel for a few weeks? What I am getting at -- is there any real cost assessment of those policies?

Ambassador Vine: To set the record straight, it should be noted that the Government of the United States does not detain refugees. The detention policy currently implemented by the Immigration and Naturalization Service is exclusively designed to deal with illegal aliens, not refugees. I must also note my dismay to find the word "refugee" loosely used to describe any and all undocumented aliens who enter the United States in complete disregard of the laws of this country. Such usage of the word "refugee" does a very major disservice to those persons who in fact are refugees and are fleeing from oppression.

Although I am unable to comment on the cost of the detention policy (the Department of Justice or INS should address that question), I want to emphasize that the projected level of refugee admissions for FY 1983 and the detention policy have nothing to do with each other. As stated before, confusing refugees and illegal aliens does not serve any useful purpose.

Regarding the cost effectiveness of the detention policy, I must restate that it must be measured as a preventive rather than reactive policy. The implementation of the detention policy sent a clear message to prospective illegal migrants that simply arriving in the United States would not lead to their integration into our communities and authorization to work (the main objective of most illegal aliens) while the interminable legal process necessary to secure their exclusion or deportation was carried out. Therefore, if you view the detention and interdiction programs in terms of a cohesive policy designed to allow the Government of the United States to exercise its sovereign right of regaining control over our own borders, to enforce the laws of the United States and to signal to prospective violators of our immigration law that we as a nation are serious about enforcing our laws, then the cost of the policies are, in my opinion, well worth it.

## COMPARISON WITH HHS PROGRAM

Senator D'Amato: I also understand that the Department of Health and Human Services Office of Refugee Resettlement will appropriate only $20 million to aid those states affected by refugee costs such as Florida and my own state of New York, but we are asked to give a total of $419 million for migration and refugee assistance on an international level. Doesn't this seem something of a contradiction?

Ambassador Vine: Budget information from the HHS Office of Refugee Resettlement indicates that they have budgeted $560.3 million in FY 1982 and $514.8 million in FY 1983 for domestic refugee and entrant resettlement costs, most of which is channeled through state governments. This includes reimbursement of normal state costs for cash and medical assistance, social services, and administrative costs for the refugees' first three years in the United States. With the addition of the normal Federal share of payments to refugees, total HHS refugee assistance will be about $725.3 million in FY 1982 and $695.0 million in FY 1983.

I believe that the $20 million which you identified is a part of the total FY 1983 budget that is earmarked to assist state governments which have been particularly impacted by refugee resettlement in their states.

The President has requested $419 million for the Department of State Refugee Program in FY 1983. Of this amount, approximately $158 million is designated to meet the cost of admitting refugees to the United States. Approximately $238 million will be used to provide for basic human needs of refugees overseas. The overwhelming majority of these refugees are not under consideration for admission to the United States. It is the policy of the Bureau for Refugee Programs to minimize the number of refugees resettled in the United States, consistent with U.S. humanitarian concerns, in recognition that refugee resettlement places burdens on state and local governments in areas where large numbers of refugees have resettled. Accordingly, I do not feel that the Migration and Refugee Assistance Appropriation request is contradictory to the HHS policy.

## THE CESSATION OF PROCESSING OF PRIORITY 6 REFUGEES FROM INDOCHINA

On April 21, the United States Government informed the United Nations High Commissioner for Refugees (UNHCR) in Geneva that resettlement in the U.S. would not be offered to those refugees arriving in first asylum countries after April 30, 1982, who do not have close connections with the United States. Among the refugee populations of concern to the U.S. for purposes of admission to the U.S., individuals fall into one of six "priorities." Those in Priority 6 have no immediate relatives already in the United States, no history of employment with the U.S. Government or U.S.-based organizations, and no connections with the U.S. supported, pre-April 1975 governments of the Indochinese countries. Refugees reaching first asylum May 1, 1982, and thereafter, who cannot qualify for consideration in priorities one through five, will not be included in the admissions program. Persons who are already in camps in first asylum countries on April 30, 1982, will be considered within the current dimensions of the U.S. admissions program.

While those newly arriving refugees fall into priorities higher than Priority 6 will continue to be considered for admission, people in Vietnam contemplating escape are advised strongly to register for legal migration under the Orderly Departure Program (ODP). Emigration through the ODP is a safe alternative to hazarding the perils of clandestine departure: capture and imprisonment by the security forces of the Socialist Republic of Vietnam; death by drowning, starvation and thirst; degradation and murder at the hands of pirates. Moreover, a beneficiary of the ODP does not endure the austere and sometimes unhealthful environment of a refugee camp and the anxiety of an indefinite wait in first asylum until a resettlement space becomes available.

In no respect does this adjustment in U.S. policy regarding future Indochinese refugees reflect an adverse presumption on the bona fides of those without ties to the U.S. But neither is there an unlimited capacity to absorb all of those who depart their homelands in Indochina. The United States does not want, through its resettlement program, to encourage the departure of Indochinese who are not suffering persecution so severe that they are compelled to leave but who have little hope of being accepted by other resettlement countries. Significant, too, in this respect is the fact that many other countries of resettlement are accepting greatly reduced numbers of Indochinese refugees compared to years past; it is not equitable, even were it possible, that the U.S. assume itself the obligation of the entire international community to resolve the Indochinese refugee problem.

Refugee populations in the countries of first asylum were reduced in the last three years as a consequence of the massive resettlement programs of the U.S. and other countries. In leading the international response to the Indochinese refugee problem over the last seven years, the U.S. has accepted approximately 600,000 refugees from Vietnam, Laos and Kampuchea, many of them people without prior connections with the United States. The crisis period in this humanitarian tragedy has passed, and refugee flows are diminished. It is now time to be more selective in offering resettlement opportunities, so that the available admission spaces in the U.S. program are given to those with special claims on the United States. Moreover, recent developments and trends in the ODP give real hope that a system of regulated and legal migration from Vietnam is achievable.

Governments of the first asylum states in Southeast Asia were consulted in advance of the decision to cease processing Priority 6 cases. The U.S. remains in close contact with those governments, with the UNHCR, and with the governments of other resettlement countries to assess the effect of the decision on refugee outflows and to develop complementary policies and procedures to deal with the Indochinese refugee situation as it evolves.

The attached "Questions and Answers" are intended to address some of the more obvious and urgent issues raised by the cessation of Priority 6 processing. Other queries may be directed to the Department of State, Bureau for Refugee Programs (RP/RAP), Washington, D.C. 20520.

Attachments:
"Questions and Answers."

Q. Does this mean that the U.S. is taking a harsher or less liberal stance with respect to the Indochinese refugee problem?

A. Not at all. Under international law, the term "refugee" is applied to anyone who flees his homeland because of persecution or who would have a well founded fear of persecution should he be compelled to return. Quite clearly most if not all of the Priority 6 cases fit that definition. What we are saying is that the cases of those refugees falling under Priority 6 will not, for the indefinite future, be resolved through resettlement in the United States. There are other alternative methods by which such cases might be resolved, such as, for example, by resettlement in another country; perhaps some will someday choose to return to their homelands.

Q. What other steps has the U.S. taken to discourage flight from the Indochinese countries and what further measures, if any, are being considered?

A. We have done and continue to do what we can to facilitate and expedite legal departures from Vietnam through the Orderly Departure Program (ODP). There have been indications that the Vietnamese government, for its part, is increasingly willing and able to allow greater numbers of people to emigrate under the ODP. We have also attempted to warn would-be refugees of the dangers and uncertainties inherent in fleeting their homelands, such as pirate attacks on refugee boats, long waits in the refugee camps and so forth. There are no additional measures under consideration at this time.

Q. Is there any particular significance as to the timing of this action?

A. Only in the sense that the groundwork, which took us several months to lay, is now complete. The Department recently completed a review of the trends in the overall refugee situation and officials concerned with refugee matters have visited Southeast Asia to gain a first-hand appreciation of the present problem. From our own observations and from those shared with us by officials of governments in the region, we concluded that the action would be useful.

Q. How will this action affect the overall level of admissions of refugees to the U.S.?

A. The halt in processing of Priority 6 cases may not significantly reduce refugee admissions over the next year or so, principally because there are many refugees who are qualified for admission to the U.S. and who are already in the processing stream. Indeed, this is one of the rationales for introducing the measure. Rather than on the pure numbers involved, we expect the policy to impact on the "quality" aspect of refugee admissions; that is to say that those admitted during the coming period will have closer ties to the U.S. than was necessarily the case before, either through relationship or on the basis of close affiliation with the former Indochinese regimes. For the future, we expect that those persons without ties to the U.S. and with less than compelling reasons to flee will tend to remain in the Indochinese states.

Q. Why is there a "grace Period" between the time of this announcement and the imposition of the processing ban?

A. It was believed necessary to allow refugees in transit from their homelands and cut off from normal contact with the outside world time to reach first asylum before the measure takes effect. At the same time, we did not wish to allow a period long enough for escapes to be planned and executed in time to beat a deadline imposed by the cessation of processing.

Q. Are you telling people who might be categorized Priority 6 and who are being persecuted in their homelands simply to stay and suffer that persecution?

A. No. We do not, however, want such individuals to believe erroneously that they will be accepted for resettlement in the U.S.

should they choose to flee. As noted before, other resettlement countries are continuing to accept refugees in their own programs and some of these refugees have or would be classified for our purposes as Priority 6. Whether or not a given refugee would qualify for one of these other countries' programs is beyond our competence to judge. We would assume, however, that such a judgment would weigh heavily in the decisions of some Indochinese as to whether they should leave or remain in their homeland.

Q. Is this decision not to process Priority 6 cases a temporary step that will be rescinded at some point?

A. Such an inference would be dangerous and, if made by would-be refugees considering departing their homelands, possibly tragic. The cessation of processing of Priority 6 cases from Indochina is both a response to a situation and an attempt to influence the future shape of that situation. We do not see a reversal of this particular measure as likely, though this option remains available should unforeseen circumstances require us to reconsider the matter.

Q. How have the first asylum countries' governments reacted to this announcement?

A. For their specific responses, I would have to refer you to their individual spokesmen. Generally speaking, however, we have noted support from those governments and also from other concerned countries for the notion that the U.S. should take steps to discourage departures of refugees from Indochina.

Q. Will not this procedure leave a residual refugee population in the countries of first asylum composed of persons whom no resettlement country will accept?

A. Working with the UNHCR and in cooperation with the other countries of resettlement, the U.S. is committed to resolving the problem of Indochinese refugees without placing a burden on those countries which, often at great social, economic and political cost, have offered first asylum to victims of persecution. We are confident that our present approach to the situation will advance this goal.

Q. What happens if the countries of first asylum refuse to allow refugees to land on their territory as a result of this new measure?

We trust that this will not happen. The tragic incidents of forcible repatriation and boat push-offs in 1978 and 1979 were, in retrospect, incidents based on fears that the international community could not or would not respond to the refugee crisis which dominated that period. The performance of the UNHCR and the international community since that time has proved those fears to be exaggerated.

Q. What happens to people who fall under Priority 6 and who arrive in first asylum countries after the measure is in effect?

A. Our action on Priority 6 cases is predicated on the belief that the prospect of an indefinite stay in a refugee camp will deter such individuals from fleeing in the first place unless, of course, their situations in their homelands are insufferable because of persecution. Many case-specific factors would come into play for those in Priority 6 who choose to ignore our action. Such individuals may have close connections with another of the resettlement countries and be eligible for that country's program. Where a refugee is not accepted by any resettlement country, he could expect an extremely long wait in a camp environment. The UNHCR's mandate includes reaching agreements with refugees' home-country authorities permitting refugees to return to those countries voluntarily and safely. Some refugees might have to wait in camps until that solution is available.

Q. What about refugees who claim they were not aware of the cessation of processing of Priority 6 cases?

A. Once again we are dealing with a hypothetical situation and it is not productive to speculate. For now I can only say that we intend to apply our policy across-the-board and without exception. I should point out again that, in such cases, there are solutions other than acceptance of the refugee into the U.S. program. These would include his resettlement in another country or possibly his eventual voluntary repatriation. It is up to the international community as a whole and not entirely or primarily up to the U.S. to deal with such cases should they arise.

Q. Have the Indochinese governments been informed of this action?

A. There was no official notification to those governments, though we feel confident that they have learned of it through various channels.

Q. How do you expect the Vietnamese authorities to react to this move?

A. We don't know. We would hope that the SRV will continue its efforts to streamline and expand legal emigration from Vietnam under the Orderly Departure Program (ODP) so that fewer people feel compelled to bear the risks to life and health entailed in illegal flight from the country.

## SUBCOMMITTEE RECESS

The subcommittee now stands in recess until Thursday, May 27. Thank you all.

[Whereupon, at 3:35 p.m., Thursday, May 20, the subcommittee was recessed, to reconvene Thursday, May 27.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, MAY 27, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2:35 p.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and Leahy.

## UNITED NATIONS

### U.S. PERMANENT REPRESENTATIVE

### STATEMENT OF HON. JEANE J. KIRKPATRICK, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

Senator KASTEN. The subcommittee will come to order.

This afternoon we will receive testimony from Hon. Jeane J. Kirkpatrick, the U.S. Permanent Representative to the United Nations.

In the past, this subcommittee has only received testimony from the International Organization Affairs Bureau, and I thought this year it would be particularly appropriate to have a change in that format by asking our Ambassador to the United Nations to present testimony.

### VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS AND PROGRAMS

The subcommittee has received a written statement, as requested, from the International Organization Affairs Bureau which we will submit for the record. We may have questions to submit to the Bureau in addition.

[The statement follows:]

## PREPARED STATEMENT OF NICHOLAS PLATT
## ACTING ASSISTANT SECRETARY OF STATE

## INTERNATIONAL ORGANIZATION AFFAIRS

MR. CHAIRMAN:

I APPRECIATE THIS OPPORTUNITY TO PRESENT TO YOU THE PRESIDENT'S FISCAL 1983 REQUEST FOR CONTRIBUTIONS TO CERTAIN VOLUNTARILY FUNDED PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES.

THIS REQUEST IS MADE AT A TIME OF STRINGENT BUDGETARY REQUIREMENTS AND REFLECTS THE OVERRIDING NEED TO CURTAIL FEDERAL SPENDING. WE HAVE BEEN ASSESSING ALL UN PROGRAMS IN WHICH WE PARTICIPATE AND THIS REQUEST IS THE RESULT OF OUR RIGOROUS ANALYSIS.

WE HAVE ARRIVED AT THIS REQUEST UNDER THE WEIGHT OF OTHER NATIONAL PRIORITIES BUT NOT UNMINDFUL OF THE ACTUAL AND SYMBOLIC CONSEQUENCES THAT REDUCED U.S. CONTRIBUTIONS MIGHT HAVE FOR THE UNITED NATIONS FAMILY OF AGENCIES AND PROGRAMS. CERTAINLY, NEEDS WORLD-WIDE HAVE NOT DIMINISHED. CERTAINLY, THE PROGRAMS WE SUPPORT REMAIN IMPORTANT TO U.S. FOREIGN POLICY GOALS. CERTAINLY, THE BENEFITS ACCRUING TO OUR COUNTRY AND OUR ECONOMY ARE NO LESS WELCOME. WE ARE, HOWEVER, CONSCIOUS OF THE EQUITY AND FAIRNESS OF OUR REQUEST AND OF THE COMPENSATING QUALITIES THAT MORE EFFICIENT AND BETTER MANAGED PROGRAMS CAN PRODUCE UNDER ENHANCED FISCAL AND BUDGETARY DISCIPLINE.

MR. CHAIRMAN, WE HOPE THE CONGRESS WILL AUTHORIZE AND APPROPRIATE THE ENTIRE AMOUNT REQUESTED AS A CONCRETE SIGNAL OF SUSTAINED U.S. COMMITMENT TO THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES AND AS A PRACTICAL MEASURE FOR FACILITATING THE CONDUCT OF U.S. FOREIGN POLICY THROUGH THESE MULTILATERAL AGENCIES.

BEFORE DISCUSSING THE DIFFERENT ITEMS INCLUDED IN THIS REQUEST, I WANT TO EXPLAIN THE POSITION OF THE ADMINISTRATION

REGARDING THE UNITED NATIONS AND ITS AFFILIATED AGENCIES.

IT HAS BEEN THE PROUD TRADITION OF THIS COUNTRY THAT IN ASSERTING OUR POWER IN THE MODERN WORLD WE HAVE ALWAYS SOUGHT THE COOPERATION OF OTHER NATIONS TO OPPOSE AGGRESSION, TO UPHOLD THE RULE OF LAW AND TO HELP THE POOR AND THE WEAK. WE HAVE PERSISTED IN THE BELIEF, AND WE CONTINUE TO PURSUE THE IDEAL, THAT THE MAINTENANCE OF STABLE INSTITUTIONS OF GLOBAL COOPERATION ARE ESSENTIAL FOR THE EFFECTIVE PURSUIT OF AMERICAN FOREIGN POLICY GOALS.

AS IT HAS DEVELOPED OVER THE FOUR DECADES OF ITS EXISTENCE, THE UNITED NATIONS SYSTEM HAS BEEN A SOURCE OF BOTH SATISFACTION AND DISAPPOINTMENT. THE UN HAS GROWN INTO A VERSATILE GLOBAL CONGLOMERATE WHOSE CONCERNS RANGE FROM KEEPING THE PEACE TO EXCHANGING SCIENTIFIC KNOWLEDGE, FROM THE PRODUCTION OF FOOD TO THE PROTECTION OF FUNDAMENTAL FREEDOMS. TODAY IT HAS THREE TIMES AS MANY MEMBERS AS IT HAD ON ITS DAY OF BIRTH. ITS EXPENDITURES HAVE MULTIPLIED MANYFOLD AND ITS PROGRAMS TOUCH ALL COUNTRIES ON THE EARTH.

IN THE INTERVENING 37 YEARS, HOWEVER, WE HAVE ALSO LEARNED THAT BIGGER IS NOT NECESSARILY BETTER, THAT WHILE THE UN HAS GROWN IT HAS NOT YET MATURED AND WHILE IT HAS BECOME THE SOUNDING BOARD FOR NEW AND UNFAMILIAR VOICES IT DOES NOT ALWAYS ECHO THE TRUTH.

THE ROLE OF THE UNITED STATES AS ONE OF THE UN'S PRINCIPAL SUPPORTERS FOR ALL THESE YEARS EARNS US THE RIGHT TO CRITICIZE IT WHEN WARRANTED, AND DEFEND IT WHEN DESERVED. WE HAVE GAINED THE WISDOM OF EXPERIENCE TO DISCERN AND DISTINGUISH BETWEEN WHAT IS WRONG WITH THE UN AND WHAT IS RIGHT, AND THE RESPONSIBILITY TO RIGHT THE WRONGS.

FRANKLY, MR. CHAIRMAN, WE ARE NOT HAPPY WITH A NUMBER OF DEVELOPMENTS AT THE UN INCLUDING:

-- THE PERENNIAL CROP OF ONE-SIDED, POLEMICAL MIDEAST RESOLUTIONS;

-- THE ADOPTION OF PROPAGANDISTIC AND UNREALISTIC STANDS ON ARMS CONTROL AND DISARMAMENT;

-- EXTREME RESOLUTIONS ON SOUTH AFRICA WHICH ARE ALSO ABUSIVE OF THE UNITED STATES; AND,

-- THE TENDENCY OF THE NON-ALIGNED GROUP IN THE UN TO CRITICIZE THE UNITED STATES AND THE OTHER INDUSTRIALIZED DEMOCRACIES FOR THE WOES OF THE THIRD WORLD, AND TO DEMAND UNREALISTIC SOLUTIONS.

BUT THIS IS NOT THE ENTIRE PICTURE, THE WHOLE STORY. PERMIT ME, MR. CHAIRMAN, TO HIGHLIGHT SOME OF THE MAJOR UN ACCOMPLISHMENTS IN 1981-82. THESE INCLUDED:

-- THE ADOPTION OF RESOLUTIONS DEMANDING AN END TO AGGRESSION IN KAMPUCHEA AND AFGHANISTAN BY INCREASED MAJORITIES;

-- THE ADOPTION OF A STRONG RESOLUTION BY THE UN COMMISSION ON HUMAN RIGHTS EXPRESSING CONCERN OVER THE VIOLATION OF HUMAN RIGHTS IN POLAND.

-- THE STRONG REBUKE IN THE INTERNATIONAL LABOR ORGANIZATION TO POLAND AND THE SOVIET UNION BECAUSE OF THE SUPPRESSION OF SOLIDARITY;

-- THE EXTENSION, BY AN INCREASED MAJORITY, OF THE MANDATE TO THE SPECIAL UN CHEMICAL WEAPONS EXPERTS GROUP FOR ANOTHER YEAR;

-- THE DEFEAT OF THE CUBAN-INSPIRED ATTEMPT TO PLACE PUERTO RICO ON THE AGENDA OF THE SPECIAL COMMITTEE ON DECOLONIZATION;

-- THE ADOPTION BY THE GENERAL ASSEMBLY OF IMPORTANT RESOLUTIONS ON RELIGIOUS INTOLERANCE AND ON THE CAUSES OF MASS REFUGEE MOVEMENTS;

-- THE FORMULATION IN UNESCO OF A MODERATE AND PRACTICAL PROGRAM FOR THE DEVELOPMENT OF COMMUNICATIONS IN THE LESS DEVELOPED COUNTRIES WITH LESS EMPHASIS ON THE RADICAL CALL FOR A NEW WORLD INFORMATION ORDER;

-- PRESERVATION OF VITAL PEACEKEEING OPERATIONS IN SOUTH LEBANON, THE GOLAN HEIGHTS AND CYPRUS;

-- ADOPTION BY THE SECURITY COUNCIL OF RESOLUTION 502 ON

THE FALKLAND ISLANDS WHICH PROVIDES THE BEST FRAMEWORK FOR A PEACEFUL SETTLEMENT BASED ON THE UN CHARTER; AND,

-- CONTINUED PERFORMANCE BY UN SPECIALIZED AGENCIES OF A HOST OF FUNCTIONS, ESSENTIAL TO THE U.S. IN MANY FIELDS.

I DREW THIS BALANCE SHEET, MR. CHAIRMAN, TO PUT INTO RELIEF THE PARADOXICAL REASONS WHY -- AS REVEALED BY THE MOST RECENT POLLS -- MOST AMERICANS, WHILE CRITICAL OF CERTAIN ACTIONS OF THE UN, ARE ALSO IN FAVOR OF CONTINUED U.S. PARTICIPATION IN THE MANY CONSTRUCTIVE ACTIVITIES OF THAT WORLD ORGANIZATION AND ITS AFFILIATED AGENCIES.

OVER THE YEARS, IT HAS BEEN CONSISTENT U.S. POLICY TO MODERATE THE EXCESSIVE EXPENDITURES OF INTERNATIONAL ORGANIZATIONS AND TO URGE THE ACCEPTANCE OF MORE EFFICIENT METHODS OF OPERATION. OVER THE YEARS WE HAVE RESISTED SIMPLIFIED SOLUTIONS, QUICK FIXES AND SHOULDERING A DISPROPORTIONATE SHARE OF THE BURDEN FOR THE UN'S SOCIAL, ECONOMIC AND HUMANITARIAN UNDERTAKINGS. AND OVER THE YEARS, WE HAVE MAINTAINED THAT THE UN MUST COMPLEMENT BUT NEVER SUBSTITUTE FOR THE SELF-RELIANT EFFORTS OF THE COUNTRIES THEMSELVES IN THE PATH OF THEIR DEVELOPMENT.

WHILE CONTINUING TO HOLD TO THESE POSITIONS AS A MATTER OF PRACTICALITY AND PRINCIPLE, WE MUST ALSO WEIGH THE LIMITS IMPOSED ON THE SIZE OF OUR VOLUNTARY CONTRIBUTIONS BY OUR OWN BUDGETARY RESTRAINTS. MORE IMPORTANTLY, WE MUST ALSO REEMPHASIZE CERTAIN PRINCIPLES. FIRST OF ALL, EXPENDITURES OF THE PUBLIC SECTOR FOR MAJOR UN DEVELOPMENT PROGRAMS SHOULD BE DESIGNED TO ENGENDER COMPLEMENTARY EFFORTS BY THE PRIVATE SECTOR WHERE THE GREATEST POTENTIAL OF EXPERTISE, CAPITAL AND TECHNOLOGY REQUIRED FOR THE ECONOMIC GROWTH OF THE LDCS CAN BE FOUND. AND SECONDLY, IF WE ARE TO BRING UNDER BETTER CONTROL AN OVER-GROWN INTERNATIONAL BUREAUCRACY THAT SPENDS PROGRESSIVELY MORE ENERGY ON ITS OWN MAINTENANCE AND LESS AND LESS ON ACCOMPLISHING ITS MISSION, THE TIME HAS COME TO ACKNOWLEDGE THAT THERE ARE LIMITS TO THE UN'S INSTITUTIONAL CAPACITY TO ATTEND TO EVERY PROBLEM.

MR. CHAIRMAN, IN STRIVING TO MAINTAIN A PROPER BALANCE BETWEEN THESE CONSIDERATIONS AND THE PROMOTION OF U.S. INTERESTS THROUGH MULTILATERAL ORGANIZATIONS, WE CANNOT ESCAPE THE LEADING ROLE WE HAVE IN SHAPING THE ACTIVITIES OF THE UN AGENCIES AND PROGRAMS. THERE ARE OVERRIDING RATIONALES FOR A CONTINUED HIGH LEVEL OF U.S. COMMITMENT AND VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS THAT EMBRACE POLITICAL, STRATEGIC, ECONOMIC AND CULTURAL CONSIDERATIONS. OUR VOLUNTARY CONTRIBUTIONS TO THE UN AGENCIES AND PROGRAMS UNDENIABLY AFFECT THE INTERNATIONAL ENVIRONMENT IN WHICH WE PURSUE OUR GOALS. MORE SPECIFICALLY, U.S. CONTRIBUTIONS TO THESE ORGANIZATIONS AND PROGRAMS:

-- PROVIDE AN OPPORTUNITY FOR ADVANCING AMERICAN IDEALS AND IDEAS AFFECTING THE EVOLUTION OF THE INTERNATIONAL SYSTEM;

-- ARE CRITICAL FOR ADVANCING THE DEVELOPMENT OF ALL COUNTRIES, ESPECIALLY THE POORER ONES;

-- DEMONSTRATE IN SPECIFIC TERMS AMERICAN HUMANITARIAN CONCERNS;

-- ARE OFTEN WARRANTED BECAUSE OF THE STRATEGIC IMPORTANCE OF GIVEN GEOGRAPHIC AREAS IN WHICH UN PROGRAMS ARE ACTIVE;

-- ACT AS CATALYSTS FOR USE OF U.S. EXPERTISE, TECHNOLOGIES AND SUPPLIES;

-- SPONSOR FOREIGN STUDENTS TO U.S. INSTITUTIONS OF HIGHER LEARNING;

-- ARE IN A LARGE PART RETURNED TO THE U.S. ECONOMY IN THE FORMS OF RENTALS, SALARIES, SERVICES, PURCHASES, AND OTHER EXPENDITURES;

-- ENCOURAGE THE RECOGNITION THAT CERTAIN INTERNATIONAL RESPONSIBILITIES, WHICH CANNOT REST ON ONE OR A FEW COUNTRIES ALONE, DEVOLVE UPON THE ENTIRE WORLD COMMUNITY;

-- SUBSTITUTE FOR THE UNECONOMICAL PROLIFERATION OF BILATERAL AGREEMENTS BETWEEN THE U.S. AND OTHER NATIONS;

-- PERMIT THESE ORGANIZATIONS TO COORDINATE THEIR ACTIVITIES WITH U.S. BILATERAL ASSISTANCE PROGRAMS AND TO

SERVE IN AREAS TOO SENSITIVE FOR OR OUTSIDE THE REACH OF U.S. BILATERAL AID; AND, FINALLY,

-- STRENGTHEN THESE ORGANIZATIONS AS PREFERRED ALTERNATIVES FOR MANY LDCs TO ENTERING INTO ENTANGLING "MUTUAL ASSISTANCE" ARRANGEMENTS WITH THE SOVIET UNION.

FEW IF ANY OF THESE ORGANIZATIONS AND PROGRAMS WOULD CONTINUE AT THE LEVEL OF ACTIVITY OR WITH THE IMPACT THEY NOW HAVE WITHOUT SUBSTANTIAL U.S. PARTICIPATION. WITHDRAWAL FROM THESE ORGANIZATIONS WOULD HARM OUR DIPLOMACY, OUR ECONOMY AND OUR OWN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES.

MR. CHAIRMAN, THE REMAINDER OF MY STATEMENT DESCRIBES BRIEFLY THE ACTIVITIES AND OPERATIONS OF THE ORGANIZATIONS AND PROGRAMS OUR VOLUNTARY CONTRIBUTIONS SUPPORT. HOW, FOR EXAMPLE, THE INTERNATIONAL ATOMIC ENERGY AGENCY PROMOTES NUCLEAR NON-PROLIFERATION THROUGH ITS SAFEGUARDS PROGRAM. HOW THE WORLD METEOROLOGICAL ORGANIZATION DOUBLES THE DATA AVAILABLE TO U.S. WEATHER SERVICES. OR HOW THE UN ENVIRONMENTAL PROGRAM HELPS TACKLE THE PROBLEM OF TRANS-BOUNDARY AIR POLLUTION.

## THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

FINANCED ENTIRELY THROUGH VOLUNTARY CONTRIBUTIONS FROM GOVERNMENTS, UNDP IS THE MAIN CHANNEL FOR TECHNICAL COOPERATION IN THE UN SYSTEM. IT ADMINISTERS PROJECTS VALUED OVER $600 MILLION IN SOME 150 COUNTRIES COVERING A GREAT DIVERSITY OF FIELDS RANGING FROM STIMULATING CAPITAL INVESTMENT TO VOCATIONAL AND PROFESSIONAL TRAINING. IT HAS A COORDINATING AND PRIMARY ROLE IN DEVELOPMENT EFFORTS PARTICULARLY IN THE POOREST OF THE DEVELOPING COUNTRIES.

THE REQUESTED U.S. CONTRIBUTION OF $106.8 MILLION IS $21.4 MILLION LESS THAN U.S. CONTRIBUTION FOR FY 1982. THIS MAJOR CUT DOES NOT REFLECT IN ANY WAY A LESSENED U.S. COMMITMENT TO UNDP OR DEPRECIATION OF ITS ACHIEVEMENTS; BUT IS IN HARMONY

WITH THE ADMINISTRATION'S EFFORT TO IMPROVE OUR DOMESTIC ECONOMY WHILE MAINTAINING OUR LEADERSHIP POSITION OVERSEAS.

## THE UNITED NATIONS CHILDREN'S FUND (UNICEF)

SINCE ITS CREATION IN 1946, UNICEF HAS EVOLVED INTO A MAJOR LONG-TERM HUMANITARIAN DEVELOPMENT FUND AIMED AT IMPROVING THE CONDITION OF CHILDREN EVERYWHERE, PARTICULARLY IN THE DEVELOPING COUNTRIES. OFTEN IN COOPERATION WITH OTHER MULTILATERAL AND BILATERAL ORGANIZATIONS, UNICEF PROVIDES BOTH GOODS AND SERVICES FOR PROJECTS THAT HAVE DIRECT BEARING ON THE WELFARE OF CHILDREN AND THEIR IMMEDIATE COMMUNITY.

THE UNITED STATES HAS BEEN A LEADER IN UNICEF AND ITS LARGEST SINGLE DONOR. THE $26 MILLION REQUESTED FOR UNICEF FOR FY 1983 REFLECTS GENERAL U.S. BUDGETARY REDUCTIONS AND IN NO WAY A DECLINING INTEREST IN THE PROGRAM.

## THE ORGANIZATION OF AMERICAN STATES (OAS)

THE OAS IS THE PRINCIPAL HEMISPHERIC ORGANIZATION IN WHICH THE U.S. SEEKS SOLUTIONS TO INTER-AMERICAN PROBLEMS. ITS IMPORTANCE IS PARTICULARLY HIGHLIGHTED BY RECENT EVENTS IN THE CARIBBEAN BASIN FOR IT OFFERS A REGIONAL MECHANISM TO ADVANCE U.S. SECURITY AND POLITICAL OBJECTIVES.

THE OAS IS ESPECIALLY ATTUNED TO THE DEVELOPMENT NEEDS OF THE REGION AND TO THE PROMOTION OF TECHNICAL COOPERATION AMONG ITS MEMBERS THROUGH ITS FOUR VOLUNTARY FUNDS: THE SPECIAL MULTILATERAL FUND, THE SPECIAL PROJECTS FUND, THE SPECIAL DEVELOPMENT ASSISTANCE FUND, AND THE SPECIAL CULTURAL FUND.

THE MAINTENANCE OF THE LEVEL OF U.S. CONTRIBUTIONS IN FY 1983 AT THE MAGNITUDE OF $15.5 MILLION, IN VIEW OF OTHER REDUCTIONS, REFLECTS THE STRONG COMMITMENT OF THE UNITED STATES TO REGIONAL STABILITY AND ECONOMIC GROWTH AND THE HIGH STAKES THAT ARE INVOLVED IN RESOLVING THE PRESENT CONFLICTS IN CENTRAL AMERICA. OUR PARTICIPATION IN THE OAS WAS ESSENTIAL TO PREVENT ACTION BY THIS ORGANIZATION IN THE CURRENT FALKLAND ISLANDS CRISIS TO IMPOSE SANCTIONS ON THE UK OR TO TAKE OTHER CONCRETE STEPS ADVERSE TO OUR INTERESTS.

WORLD FOOD PROGRAM (WFP)

THE PURPOSE OF THIS WFP CONTRIBUTION IS TO PROVIDE ADMINISTRATIVE AND OTHER CASH COSTS IN DISPENSING FOOD AID FOR ECONOMIC AND SOCIAL DEVELOPMENT AND FOR FOOD EMERGENCIES WORLD-WIDE.

THE WFP USES ITS RESOURCES IN A VARIETY OF DEVELOPMENT AND REHABILITATION PROGRAMS. THERE ARE "FOOD-FOR-WORK" PROJECTS WHERE FOOD IS PROVIDED AS PAYMENT TO WORKERS PLANTING TREES, DIGGING IRRIGATION CANALS, ETC. WFP FOOD IS ALSO USED IN HOSPITALS, CHILD CARE CENTERS, SCHOOL FEEDING PROGRAMS AND RESETTLEMENT PROGRAMS FOR REFUGEES. THE U.S. CONTRIBUTION OF $1 MILLION FOR FY 1983 WILL PROVIDE ADMINISTRATIVE SUPPORT NEEDED TO DISBURSE OUR CONTRIBUTIONS OF P.L. 480 FOODS. WFP ESTIMATED 1983 EXPENDITURES ARE $608 MILLION. OVER 70 PERCENT OF THESE FUNDS WILL BE CHANNELED INTO AGRICULTURAL DEVELOPMENT PROJECTS. LOW-INCOME, FOOD DEFICIT COUNTRIES WILL RECEIVE APPROXIMATELY 80 PERCENT OF THE OVERALL TOTAL.

UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

THE UNCDF PROVIDES, ON A GRANT BASIS, SEED MONEY FOR PRE-INVESTMENT ACTIVITIES FOR BOTH PRIVATE AND PUBLIC SECTOR PROJECTS TOO SMALL FOR FINANCING BY MULTILATERAL BANKS. THE FUND CONCENTRATES ALMOST ENTIRELY ON THE LEAST DEVELOPED COUNTRIES AND WITH PARTICULAR EMPHASIS ON THE DROUGHT STRIKEN SAHELIAN ZONE AND OTHER OF AFRICA'S POOREST AND NEEDIEST NATIONS. PROJECTS ARE EXECUTED BY THE UN SPECIALIZED AGENCIES, WORKING WITH HOST COUNTRY GOVERNMENTS, BANKS, PRIVATE GROUPS AND ENTREPRENEURS. PROJECTS CONCENTRATE ON FOOD PRODUCTION, VILLAGE SELF-HELP INITIATIVES AND THE DEVELOPMENT OF ALTERNATE SOURCES OF ENERGY.

THE U.S. ANNUAL CONTRIBUTION OF $2 MILLION FOR FY 1981 AND 1982 REPRESENTS APPROXIMATELY 5% OF THE TOTAL RECEIPTS FOR EACH OF THOSE YEARS. THE PROPOSED $2 MILLION CONTRIBUTION FOR 1983 REFLECTS OUR CONTINUED U.S. INTEREST IN ENCOURAGING LOCALLY-RUN ACTIVITY INVOLVING SIMPLE TO INTERMEDIATE LEVEL TECHNOLOGY.

THE WORK OF THE UNCDF ENHANCES SELF-RELIANCE, CREATES MARKETS FOR AMERICAN EQUIPMENT AND SERVICES, AND PROMOTES POLITICAL STABILITY AND ECONOMIC GROWTH.

INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

THE VOLUNTARY U.S. CONTRIBUTION TO THE IAEA DEMONSTRATES U.S. SUPPORT OF THE IAEA AND STRENGTHENS IAEA SAFEGUARDS IN ACCORDANCE WITH U.S. NUCLEAR NON-PROLIFERATION POLICY. THE VOLUNTARY SAFEGUARDS SUPPORT PROGRAM IS COMPLEMENTARY TO NON-PROLIFERATION AND SAFEGUARDS ACTIVITIES WHICH ARE COVERED UNDER THE REGULAR BUDGET OF THE IAEA. THE FY 1983 PROGRAM WILL FOCUS ON THE DEVELOPMENT AND FIELD-TESTING OF INSTRUMENTS AND THE IMPLEMENTATION OF SYSTEMS WHICH HAVE BEEN DEVELOPED THROUGH THE U.S. PROGRAM OF TECHNICAL ASSISTANCE TO IAEA SAFEGUARDS. WORK WILL CONTINUE ON THE DEVELOPMENT OF TECHNIQUES FOR VERIFICATION TESTING OF SAFEGUARDS ON SPENT FUEL. U.S. ASSISTANCE TO THE TECHNICAL COOPERATION PROGRAM WILL BE IN THE FORM OF CASH CONTRIBUTIONS PLUS EQUIPMENT, SERVICES OF U.S. EXPERTS, FELLOWSHIPS AND TRAINING COURSES, INCLUDING PREFERENTIAL PROGRAMS FOR LDCS PARTY TO THE NON-PROLIFERATION TREATY. THE U.S. CONTRIBUTION REQUEST FOR FY 1983 IS $14,500,000.

UNITED NATIONS ENVIRONMENT PROGRAM (UNEP)

THE U.S. HAS BEEN A MAJOR PARTICIPANT IN UNEP SINCE ITS BEGINNING IN 1972, CONTRIBUTING 30 PERCENT OF ITS TOTAL RESOURCES FOR THE PERIOD 1978-1981. OUR PROPOSED CONTRIBUTION FOR FY 1983 IS $3 MILLION, DOWN FROM $7.85 MILLION IN FY 1982.

A PRINCIPAL GOAL OF UNEP'S PROGRAM IS TO STIMULATE MONITORING AND ASSESSMENT OF MAJOR GLOBAL AND REGIONAL ENVIRONMENTAL TRENDS AND TO COORDINATE PROGRAMS TO IMPROVE ENVIRONMENTAL MANAGEMENT. THE ORGANIZATION PROVIDES A MEANS THROUGH WHICH THE UNITED STATES AND OTHER COUNTRIES CAN STIMULATE ACTION THROUGH THE UN SYSTEM ON PROBLEMS OF GLOBAL

DIMENSIONS SUCH AS THE BUILDING OF TOXIC SUBSTANCE IN RIVERS AND OCEANS, THE DEPLETION OF OZONE IN THE ATMOSPHERE, AND THE LOSS OF TROPICAL FOREST, ARABLE SOIL, AND GENETIC RESOURCES OF THE LAND. UNEP'S MULTILATERAL APPROACH IS THE PREFERABLE MEANS OF PREVENTING DUPLICATION AND MANAGING INTERNATIONAL PROGRAMS OF SUCH GLOBAL DIMENSIONS.

### CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES)

THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES WAS RATIFIED IN 1973 AT U.S. CONGRESSIONAL INITIATIVE TO ACHIEVE CONCERTED ACTION ON THE CONSERVATION OF ENDANGERED SPECIES OF WILD FAUNA AND FLORA. SUPPORT OF THE CONVENTION IS A MAJOR ELEMENT OF U.S. CONSERVATION POLICY. ACHIEVEMENTS OF CITES INCLUDE THE ESTABLISHMENT OF GUIDELINES FOR SAFE SHIPPING OF LIVE SPECIMENS OF PLANTS AND ANIMALS; APPROVAL OF A PROTOTYPE IDENTIFICATION MANUAL FOR USE BY CUSTOMS OFFICIALS TO IDENTIFY PROTECTED SPECIES AT PORTS OF ENTRY; ADOPTION OF A STANDARDIZED UNIVERSAL FORMAT FOR INFORMATION REQUIRED TO AMEND LISTINGS OF ENDANGERED SPECIES; STANDARDIZATION OF PERMIT FORMS AND OTHER DOCUMENTATION; AND TIGHTER CONTROLS ON TRADE IN ELEPHANT IVORY, RHINOCEROUS HORN AND WHALE PRODUCTS. THE U.S. CONTRIBUTION REQUEST FOR FY 1983 IS $150,000, WHICH IS NEEDED PRIMARILY TO MEET THE U.S. SHARE OF THE BIENNIUM BUDGET AND TO PROVIDE A SMALL AMOUNT FOR DEVELOPMENT OF A CITES YEARBOOK OF INTERNATIONAL WILDLIFE TRADE.

### UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA (UNETPSA)

THE UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA PROVIDES SCHOLARSHIPS FOR SECONDARY COLLEGE LEVEL EDUCATION AND ADVANCED TECHNICAL AND VOCATIONAL TRAINING TO STUDENTS FROM NAMIBIA AND THE REPUBLIC OF SOUTH AFRICA WHO ARE DENIED SUCH EDUCATION AND TRAINING IN THEIR OWN COUNTRIES. THE OBJECTIVE OF THIS PROGRAM IS NOT ONLY TO ENABLE THESE YOUNG PEOPLE TO PLAY A FULL ROLE IN THE SOCIETY OF THEIR RESPECTIVE COUNTRIES AS THEY BECOME INDEPENDENT OR AS MAJORITY RULE IS ACHIEVED. IT

IS ALSO TO PROVIDE GENERAL SUPPORT FOR THE CONCEPT OF PEACEFUL TRANSITION IN SOUTHERN AFRICA. APPROXIMATELY 30 PERCENT OF SCHOLARSHIP HOLDERS STUDY IN THE UNITED STATES AND ANOTHER 15 PERCENT STUDY IN EUROPE. THE FY 1983 REQUEST, LIKE THE U.S. CONTRIBUTION APPROPRIATED FOR FY 1982, IS $1,000,000.

### UN INSTITUTE FOR NAMIBIA

THE PURPOSE OF THE UN INSTITUTE FOR NAMIBIA LOCATED IN LUSAKA, ZAMBIA, IS TO TRAIN YOUNG NAMIBIANS FOR MID-LEVEL CIVIL SERVICE POSITIONS IN PREPARATION FOR THE INDEPENDENCE OF NAMIBIA SO THAT THEY CAN LEAD THE COUNTRY THROUGH PEACEFUL MEANS DURING ITS FIRST FEW SOVEREIGN YEARS. THE CURRENT STUDENT ENROLLMENT NUMBERS OVER 400. SOME OF THE SALIENT PROJECTS CARRIED OUT BY THE INSTITUTE ARE IN THE FIELDS OF MANPOWER, HEALTH, EDUCATION, RURAL AND URBAN SURVEYS, AND IN THE STUDY OF THE CONSTITUTIONAL OPTIONS AVAILABLE FOR AN INDEPENDENT NAMIBIA. THE U.S. CONTRIBUTION REQUEST FOR FY 1983 IS THE SAME AS THAT APPROPRIATED FOR FY 1982, NAMELY $500,000.

### UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN

THE UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN WAS CREATED TO IMPROVE SIGNIFICANTLY THE STATUS OF AND OPPORTUNITIES FOR WOMEN WORLDWIDE THROUGH GREATER PARTICIPATION IN THE ECONOMIC AND SOCIAL DEVELOPMENT PROCESS. THE FUND'S GOAL IS TO PROVIDE SEED MONEY FOR INNOVATIVE AND CATALYTIC PROJECTS WHICH WILL GROW AND BECOME SELF-SUPPORTING OR, ONCE EVALUATED, WILL BE ADOPTED OR EMULATED BY LARGER DEVELOPMENTAL FUNDS. SINCE ITS INCEPTION, THE FUND HAS FINANCED OVER 220 PROJECTS WITH PRIORITY ATTENTION BEING PLACED ON THE LEAST DEVELOPED COUNTRIES AND ON PROGRAMS AND PROJECTS WHICH BENEFIT RURAL WOMEN AND THE POOREST WOMEN IN URBAN AREAS. THE FY 1983 REQUEST FOR A U.S. CONTRIBUTION IS $500,000.

### WORLD METEOROLOGICAL ORGANIZATION (WMO)/VOLUNTARY COOPERATION PROGRAM (VCP)

THE WMO VOLUNTARY COOPERATION PROGRAM ASSISTS DEVELOPING COUNTRIES TO PARTICIPATE IN WMO'S WORLD HEALTH WATCH WHICH

PROVIDES THE UNITED STATES ACCESS TO IMPORTANT METEOROLOGICAL AND CLIMATIC INFORMATION COLLECTED ON A GLOBAL SCALE. THE UNITED STATES NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION RELIES ON THE WORLD WEATHER WATCH FOR METEOROLOGICAL, HYDROLOGICAL AND OCEAN-RELATED SERVICES. THROUGH VCP EFFORTS, E.G., GREATLY IMPROVED TELECOMMUNCATIONS, THERE HAS BEEN NEARLY A DOUBLING OF SURFACE AND UPPER AIR DATA RECEIVED AT THE U.S. NATIONAL METEOROLOGICAL CENTER. THE FY 1983 CONTRIBUTION REQUEST IS FOR $2.3 MILLION, THE SAME AS IN FY 1981 AND 1982.

AS YOU CAN SEE MR. CHAIRMAN, THERE ARE SOME VERY PRACTICAL REASONS AND ARGUMENTS FOR OUR CONTINUED SUPPORT OF INTERNATIONAL ORGANIZATIONS AND PROGRAMS. OUR MENTAL IMAGE OF A FLAWED UNITED NATIONS, AS ONE HUGE, EXPENSIVE AND OVERPOLITICIZED INTERNATIONAL BUREAUCRACY, GETS A DRAMATIC JOLT OF REALITY IF WE EXAMINE INDIVIDUALLY THE CONSTRUCTIVE WORK OF THE MANY CONSTITUTING PARTS THAT MAKE UP THIS GLOBAL INSTITUTION. WE FIND THAT TOGETHER THEY SPELL "U.S. INTERESTS," AND OUR INTERESTS ARE IN HARMONY WITH OUR IDEALS. AT THE SAME TIME, WE HAVE MADE EVERY EFFORT TO ASSURE THAT OUR REDUCED REQUEST FOR VOLUNTARY CONTRIBUTIONS IS CONSONANT WITH OVERALL ADMINISTRATION POLICY TO HOLD DOWN FEDERAL SPENDING. WE HOPE, THEREFORE, THAT CONGRESS WILL SUPPORT IN FULL OUR REQUEST.

THAT CONCLUDES MY STATEMENT. I WOULD BE HAPPY TO RESPOND TO YOUR QUESTIONS.

## INTRODUCTION OF AMBASSADOR KIRKPATRICK

Senator KASTEN. Ambassador Kirkpatrick, it is really a pleasure and an honor for us to have you here today. We look forward to your testimony.

I personally look forward to working with you throughout the coming years on these issues of vital importance. I congratulate you and honestly cannot say enough about the job that you are doing as our representative in what has to be one of the most difficult and trying roles in foreign policy in our Government today.

If you have a prepared statement, that will be placed in the record. If you would care to summarize your statement, we can proceed with questions.

Ambassador KIRKPATRICK. Thank you, Senator Kasten.

Let me say, it is a pleasure for me to be here, and I would like to thank you personally for the support which you and the subcommittee have offered to me, and the encouragement which you have offered. It helps because it is a very trying and a very difficult job. We need all the encouragement we can get.

I do have a prepared statement which reviews in a very general kind of way some conclusions that I have reached after about 17 months now in this job.

It might interest you to know, Senator Kasten, that the average tenure of a U.S. Permanent Representative—since Adlai Stevenson—has been 18 months. I am now in my 17th month. [Laughter.]

I think one of the reasons that we have such bad representation there is because of turnover. One thing I have learned is that the United Nations functions like a legislature, and experience helps, knowing ones colleagues and knowing the rules; knowing who will cooperate and how to cooperate; and knowing how to work within the rules and how to make the rules work for one. All that takes time.

## PREPARED STATEMENT

I think, Senator, instead of trying to summarize my statement, with your permission I will simply ask that it be entered in the record, and then we can move directly to questions on subjects of particular interest to you and the subcommittee.

[The statement follows:]

# PREPARED STATEMENT OF AMBASSADOR JEANE J. KIRKPATRICK

## U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

I have thought that what would be of most interest to this Subcommittee would be a kind of 16-month report card on both the United Nations and on me as the United States Permanent Representative. There are four major points I would like to make at the outset:

First, that the United Nations is an important body, worthy of our attention.

Second, that the United Nations is not at all the institution its American founders hoped for.

Third, that the United Nations does not reflect or represent the world in the way that representative bodies usually do.

Fourth, that the great question for the Untied States and for other countries committed to national independence, self-determination, self-government, democracy, parliaments, is whether the United Nations can be made a more effective problem-solving tool which will help resolve differences, rather than exacerbate them.

I begin from the proposition that the United Nations is an important institution. It is not, as some like to pretend, a world unto itself, insulated, without consequences for events beyond its own institutional boundaries. For better or worse, the United Nations is not only influenced by its environment, it also influences the environment. The patterns of interaction, the alliances and rhetoric, have consequences beyond its halls. The relationship between the United Nations and the outside world receives less attention, I believe, than it deserves.

My second point is even less controversial than the first -- the United Nations is not what we Americans were seeking when we played our role in its establishment. By the end of

World War II, United States leaders no longer believed it was possible for this country to remain aloof from foreign affairs -- and indeed it was not -- but we were still looking for a way to avoid the entangling alliances and old world patterns of power politics. In the aftermath of the cruelest, most bloody war mankind had known, we went to San Francisco to establish a more effective institution than the League of Nations, one which could "save succeeding generations from the scourge of war."

As a historian noted, the deliberations at San Francisco reflected the essential elements of traditional American idealism, and added up to one grand fallacy: the idea that one could and should apply to external affairs the institutions and practices of legislative procedure in a liberal democracy; that what was reasonable and right would be determined by a majority vote; and that just as the equality of man led to one-man , one vote, so the doctrine of "sovereign equality of states" also led to one-nation, one vote.

As Dean Acheson noted, the United Nations was oversold to the American people from the moment of its birth:

".... (the Charter's) presentation to the American people as almost Holy Writ and with the evangelical enthusiasm of a major advertising campaign seemed to me to raise popular hopes which could only lead to bitter disappointment."

To many, Acheson wrote, the General Assembly appeared the Town Meeting of the World. In fact, even its authors never expected it would solve all problems. As the distinguished United Nations Under-Secretary General for Special Political Affairs, Brian Urquhart, has recently written, the Charter describes a system for maintaining international peace and security which -- and here I am quoting -- "assumes that all governments will play the roles assigned to them. Those involved in disputes will avail themselves of the means available in the Charter to settle those disputes peacefully. If they fail to do this, the membership of the United Nations, under the guidance of the Security Council, will take a series of steps designed to persuade them to do so. The government concerned will heed and obey the injunctions of the Council. And if in the end the threat to peace persists, the Council, led by its permanent members, will apply enforcement measures, ranging from economic sanctions to militaty action, to restore peace and security."

But these assumptions were belied by the actual conduct of members. Very quickly, it became clear that the vision of a world basically united and basically peace-loving did not accord with reality; that therefore the Charter, which assumed that unity and peace-loving quality, was idealistic to the point of utopianism.

Now, I do not mean, at all, to imply in these remarks that the United Nations has no successes as an effective instrument for keeping or restoring peace. The fact is it has had some significant successes. It played a very positive role in the Korean War and in the Congo dispute in 1960. It played a positive role in the Indo-Pakistani War in 1965. It has more recently played a positive role in Cyprus and in Lebanon. From time to time it has played a positive role in helping to end the Arab-Israeli wars. Today in the world there are five fairly important UN peacekeeping operations currently functioning. There is a 122 man observer team in Pakistan on the border between Kashmir and Jammu. There is a United Nations truce supervisory organization along the border between Jordan, Syria, Lebanon & Egypt consisting of some 500 observers. There is a large peacekeeping force in Cyprus. The largest peacekeeping force of all, of course, is found in Southern Lebanon where approximately 7000 UN troops will soon be guarding that troubled area. There are, right now, approximately 6000 in place.

The difference between the successes and the failures in the United Nations are interesting to reflect upon. I believe that we are, in the case of the Falklands issue, in the presence of an issue which may turn out to be one of the constructive United Nations conflict resolution exercises. Already the Falklands have been the object of more constructive interaction than usual in the United Nations. We were able, a month ago, to adopt Resolution 502 which called for not only the withdrawal of the Argentine forces from the Falkland Islands. called for an end to hostilities and negotiations to resolve the conflict. The fact that we were able to adopt that resolution in a relatively brief period -- twenty-four hours -- was in itself a remarkable success. The fact that the mediation failed does not mean it was not useful and constructive. The fact that a new mediation effort has been undertaken by the Secretary-General reminds us that we have in the Security Council, in the Secretariat, and in the office of the Secretary-General resources which have great potential value for conflict resolution.

I think it is interesting to note some of the factors which differentiate the Falklands crisis from some of the more standard crises with which the organization is less successful. The first of these is simply that it is a new issue not encrusted with traditional alliances and hostilities. Sor far, it has cut across some of the bloc politics of the United Nations.

The seriousness of the efforts at conflict resolution on this issue should be an inspiration to us in the Security Council and in the United Nations. It is an example of a reason why the United States should stay in the United Nations, hang in and work hard on it and particularly on the restoration of more rational conflict solving procedures rather than less rational conflict exacerbating procedures.

At the end of a bit over a year at the United Nations I have reached three conclusions:

First, that the institution is a good deal more important than I realized, and that the work of many of its specialized agencies such as the U.N. High Commissioner for Refugees indeed does respond to important United States interests. Agencies like UNDP are indeed effective. Bodies like the International Civil Aviation Organization are absolutely necessary to today's world.

Second, it is urgently important to enhance the linkage between politics inside the United Nations with political realities outside it. The conflicts of the real world are ultimately less destructive of positive democratic institutions than the conflicts that have been bred and structured inside the United Nations.

Finally, cooling the rhetoric inside that institution would help quite a lot. Invective has become so common that old hands at the United Nations refer to "routine denunciation" and "ritualistic verbiage."

The first step toward bringing the United Nations into closer conformity with the ideal is to restore contact with the real. The real interests of the vast majority of nations at the United Nations, and of our own nation as well, surely are self-determination, self-government, peace, democracy, development. But to set up one or another faction or self-described liberation movement as the "only legitimate representative" of the such-and-such people, is not the same thing as self-determination. To turn a blind eye to the villainies of an Idi Amin in Uganda, or the Vietnamese-installed puppet government in Cambodia is not the same as self-government. The people's democracies are neither popular or democratic. And development is not synonymous either with excoriating transnational corporations or demanding concessional aid transfers.

In a time when these confusions exist, some cynical and some "merely" naive, I think it is up to us to speak our minds clearly about what is reality and what is myth. And this in the first instance means we must clarify our own thinking.

I think that the aspirations of the American people for an international conflict resolving, problem solving body remain as high as ever and that it's our job at USUN to do our very best to make the institution at which we work more satisfying in terms of those aspirations. I think we are and should continue to be working, in other words, to try to get more a rational, more peaceable resolution system and therefore a more peaceable world.

Senator KASTEN. A number of people feel that the conflict over the Falkland Islands represents one more black mark, one more failure for the United Nations.

It is disappointing as we look at the inability of the United Nations to deal with this crisis, and, frankly, the inability of Great Britain and Argentina to settle their differences as well—I think they are equally disappointing.

How would you assess the U.N.'s role in the Falklands crisis, and do you look at it as disappointing as many of us do? It would seem that this is the kind of a situation that the United Nations was designed to mediate. It is very, very disappointing.

Ambassador KIRKPATRICK. Well, you know, Senator Kasten, I agree with you that it is almost exactly the kind of situation that the United Nations was built, as it were, to handle.

I perhaps am less disappointed than usual because I think the truth is that the United Nations has functioned more effectively and responsibly in relationship with the Falklands crisis than in relationship to any international conflict since I have been there.

One of the great disappointments that I suffered was in realizing not long after I got there and began observing what really happened when a dispute was taken up in the Security Council, observing that more often or not the Security Council made things worse, not better. The General Assembly similarly, more often than not exacerbates the conflicts rather than in fact resolving them or even rendering them easier to resolve.

Now, the U.N. Security Council has functioned very responsibly in relationship to the Falklands dispute. It has at least met the requirement of the Hippocratic oath that they not make things worse. That is already something. It may not seem like much, but it is something.

Actually, in its passage of Resolution 502 within the first 24 hours of the public evolution of the conflict I think it really accomplished a positive task.

Resolution 502, you know, has three elements that call for a cessation of hostilities; withdrawal of Argentine troops—withdrawal of troops—cessation of hostilities; negotiations, peaceful negotiations for a solution of the problem. Now, the parties did not do as they were supposed to.

Then, after that, the Secretary of State, of course, undertook his efforts of good offices and mediation and the U.N. Secretary General and the Security Council deferred action until the Secretary of State had essentially given up. They marked that by the announcement of U.S. support for Britain—that was taken there as meaning, basically, the end of the U.S. mediation effort.

At that point, the Secretary General, you may recall, undertook once again personal good offices and mediation. That also did not work in the sense of producing a peaceful resolution of the problem and now, as you know—only yesterday—the Security Council passed a resolution once again calling on the Secretary General to try again.

Now, the Secretary General in that situation said an absolutely unprecedented thing. He rebuked the Security Council. He rebuked the Security Council for having given him virtually no tools with which to accomplish this great task.

But I think we could say in relationship to the United Nations functioning on the Falklands crisis that it has been much better than the average. That it has been generally quite constructive although unsuccessful. That the failure of the Secretary General's mediation effort is, I believe, in no sense either his responsibility or the responsibility of the Security Council.

I very much regret to say, I think it is the responsibility of the parties who finally rejected those good offices. He said that himself in his report.

The question is, do we have there an institution which can create peace or resolve conflict when the parties to the conflict do not desire to resolve the conflict? I think we have to say, no, we do not, obviously. It has been demonstrated this is not the case.

But at least the general function of the United Nations in this case has been constructive and positive, unlike in many other cases.

### RELATIONS WITH LATIN AMERICA

Senator KASTEN. One of the things that a number of people on our subcommittee have been concerned about, and I know a number of people in the Foreign Relations Committee as well, is the fallout that we are just beginning to be able to measure with our relationships with our friends in the Latin American community.

It might be a little too early for you to assess that. But it seems to me that it is almost impossible to overemphasize the possible damage that has been done, especially with the efforts of the Reagan administration to try to reestablish ties, to try to reorient goals and discussing in very precise ways the Soviet threat, the Cuban threat, the activities in Nicaragua and seeing the OAS and other groups come together with us.

It seems that there is a great danger that much of these efforts that we have made will now be destroyed, and much of the credibility and friendship that we have been able to demonstrate and to work with could now be at stake.

Do you share my assessment and my concern? Or is it too early for you to comment and give a sense?

Ambassador KIRKPATRICK. No, no.

Senator KASTEN. You are working with these people?

Ambassador KIRKPATRICK. I welcome the opportunity, Senator Kasten, to comment on that.

I share your concern very deeply and as intensely as possible. I think it is almost impossible to overestimate the extent to which United States relations with Latin American nations are being and can be damaged by this crisis, the unfolding of this crisis.

We do work very closely with the Latin American nations at the United Nations as we work very closely with the Moslem nations and the African nations. I speak Spanish, as you know, and we have another Ambassador, Ambassador Sorzano. We have developed many close ties with Latin American missions there. We have had especially close working relations with some of the Latin Democracies like Venezuela, and Colombia, and the Dominican Republic.

We have been working very closely with those countries in the last days as the United Nations worked on the Falklands crisis. I have personally been in very close touch with the special delegations who have come up from Latin America to be present for the United Nations debate on the Falklands and also for the OAS debate this afternoon on the Falklands.

The intensity of the Latin American feeling about this issue is really hard to exaggerate. I was quite frankly surprised by the extent—and am somewhat surprised—by the extent of the unity of the Latin nations. Latin nations are not often unified in relationship to anything. And the unity which they are displaying in this crisis is almost unprecedented.

### SUSPICION OF THE UNITED STATES

There are some very profoundly negative aspects of it. For example, one of the continuing subterranean, inarticulate grounds for suspicion and resentment in the relationship between the Latin American countries and the United States is their sense that we do not value them. That we are fundamentally indifferent to the values of Latin American tradition. That we are so Europe oriented that we will always value our European ties over our hemispheric ties, and that we therefore really cannot be counted on to be good citizens of the hemisphere or good friends within the hemisphere.

Now we have—President Lyndon Johnson, John Kennedy, Franklin Roosevelt, and Dwight Eisenhower, and a great many American Presidents—worked on something—Good Neighbor policy, Alliance for Progress policies, whatever, partly in the effort to cement our ties in the hemisphere. This administration, as you know, has worked very hard on it.

I think that there is a very profound sense of resentment against the U.S. policy among our Latin American colleagues today.

I was reading Le Monde last night and the article in Le Monde was talking about the current policy as above all a defeat for the United States, saying that throughout the Latin American press one reads again and again that they are less outraged by British aggression than by American betrayal.

I am afraid that this feeling is very widespread, and that we are going to have to work very hard to overcome the consequences.

Senator **Kasten**. One of the difficult twists to that is that in the last 2 weeks the Caribbean Basin Initiative, which is about to come to our committee, has had a rocky political road, and the same countries are watching our reactions on that.

We have not had our "kick at that cat" yet, but it is coming here, and it is not going to be any easier going through this committee than it has been going through the House committees and the authorizing committees. Coming both at the same time, I think there could possibly be significant questions.

### THE MIDDLE EAST

Let me shift, if I can. Unfortunately it has become practically a pastime—we can say a perverse pastime—of the United Nations to take after Israel in one fashion or another; in some way, shape, or form.

A number of people have wondered why we or other countries do not use the same kinds of tactics. For example, why was not a resolution introduced in the United Nations condemning Syria, exposing Syria for the massacre where, we are told, 5,000 to 8,000 people were killed, 20,000 people might have become refugees or orphans.

First, if you could comment about the general thrust of resolution after resolution, particularly in some of these subgroups of the United Nations, who continue to take after Israel in one way or another.

Second, can we do more in terms of demonstrating concerns about, for example, the condemnation of Syria in that case that I think would have been very appropriate.

Ambassador **Kirkpatrick**. Senator Kasten, yes, Israel baiting is certainly one of the principal activities by all the major, central bodies of the United Nations—the Security Council and the General Assembly, particularly.

In the period that we have been there, something over 50 percent of all the time in the Security Council that was not devoted to some noncontroversial housekeeping resolutions—let me put those aside—50 percent of it has been devoted to what is called the "Arab-Israeli conflict" which invariably turns into some sort of an attack on Israel. It is nearly as high in the General Assembly, there is resolution after resolution.

There is underway in the United Nations, very clearly, an effort of delegitimizing Israel, denying the legitimacy of Israel's existence, and identifying Israel as an international law breaker. So, resolutions get passed which are incompatible with Israel's security and even survival.

Israel then, naturally, refuses to obey those resolutions, conform to them. And the fact of her nonconformity is then taken as proof that she is an international law breaker, noncooperative with the United Nations. The process continues.

The amount of hostility, downright hatred, directed toward Israel is shocking and appalling—truly shocking and truly appalling.

We have been much more aggressive, as I am sure you know—vigorous I should say, maybe—in our efforts at defending Israel against this kind of unceasing extremity of hatred than was the previous administration. I think we have improved the situation somewhat, at least the whole United Nations understands that Israel has in this administration a reliable friend who will stand by her in the United Nations.

## GREATER U.S. ACTIVITY

What could we do? Could we do more? One of the reasons that we could not accomplish vis-a-vis Syria what Israel's enemies accomplish vis-a-vis her is because of the bloc structure of the United Nations, the bloc politics of the United Nations. We do not have the votes, they have the votes.

They have the votes because Israel has become an object of the Arab Bloc. The Arab Bloc is linked by ties of mutual support to the African Bloc and to the Nonalined Movement. They can turn out the votes for anti-Israel resolutions. Now, we could not turn out the vote for an anti-Syria resolution even if Syria was involved in quite bestial practices.

We could do more than we do. I personally believe that one tactic we should seriously consider is to take more initiatives to introduce resolutions to condemn other nations, for example, for bestial, warlike, inhuman—gross abuses of human rights, and so forth. We have not, we are quite passive.

I think we ought to consider this passivity rather more carefully, even though we were to introduce resolutions, as in that case, knowing that we would lose.

Even if we knew we could not get nine votes to get a debate, I think we still might introduce them with a statement and an effort at the debate, and it would put other countries on notice that we took it seriously, and it would force them either to support us in trying to bring to the attention of the United Nations gross abuses of human rights, and repressions, and violations of peace, or it would put them on record as opposing us. I think that might be worth doing.

## DOUBLE STANDARDS

Senator **Kasten**. I am pleased to hear you say that because in the legislative branch often we will go forward with something that we know might not win, but we would just as soon have everyone on record, knowing very well that we are going to lose. But let us put them on record, record those votes.

It seems to me to this degree only a small amount of work could sometimes make a big difference. We certainly have been able to successfully, I think, open up the eyes of the world to atrocities on both sides in a country like Nicaragua, for example, where we were finally able to bring the case of the Miskito Indians into the world arena. They reacted, studies are going on in all the different missions. But they were on the defensive for a change.

We are just pointing out the double standard that exists in some of these international organizations. Whether we win or lose, at least we will be making a point.

## THE PLO AND THE UNITED NATIONS

You talked about delegitimizing Israel. I am concerned about the other issue, and I think in this area there is a clear difference between this administration and previous administrations, and certainly between you and previous Ambassadors to the United Nations in terms of legitimizing the PLO.

I think that in the process of bringing up the PLO and other terrorist groups that we really are creating significant problems for ourselves and for the Assembly in general.

We are giving them—certainly previous administrations did this more—but we are giving them a voice, a forum, a degree of legitimacy that certainly we do not give them in any other forum.

Do you agree that this is a significant problem in the United Nations?

Ambassador **Kirkpatrick**. Oh, yes, Senator Kasten. As you know, the PLO plays a very important role in the United Nations.

It has been long since accorded official observer status. But not only that, it is the object and recipient of quite a large number of special programs.

The question of Palestine, for example, has a kind of permanent place on the agenda. There is a Committee on Rights for Palestinians. This is all at the direct instruction of the General Assembly, or the Security Council.

So, the PLO has a permanent exhibit which shows largely how Israelis oppress Palestinians in Israel. It depicts the deprivation of Palestinian rights, and so forth. It is a permanent exhibit in the halls of the United Nations.

The PLO derives many benefits—symbolic and political—from the United Nations. Its observer, its representative, plays a very significant lobbying role in the United Nations. Almost everything which occurs in the United Nations involves the PLO by virtue of its—I think fundamentally illegitimate—status as an official observer.

The General Assembly passed a resolution describing the PLO as the sole authentic representative of the Palestinian people. They, by the way, defined SWAPO in the same way, SWAPO in official observer status, and it is described as the sole legitimate representative of the Namibian people.

Now, you know, we may wonder—we and other democratic nations—may wonder how you know who the sole, legitimate, authentic representative of the people is who has never had an election, for example. Well, it is simply decreed.

### FINANCIAL SUPPORT OF THE PLO

Senator KASTEN. You say we have given support. Could you total the monetary support, the dollars that have gone to PLO groups, organizations? I understand there are some education and refugee programs. There are some other kinds of programs where they actually get financial support through the United Nations?

Ambassador KIRKPATRICK. Yes.

Senator KASTEN. Perhaps for the record you could provide the committee with that information.

Ambassador KIRKPATRICK. Senator Kasten, you say how much we provide?

Senator KASTEN. The United Nations provides.

Ambassador KIRKPATRICK. All right because the United States, of course, has historically for a number of years had a policy under which we deduct from our contributions to the United Nations the various agencies, that portion of the contribution which we can identify as being spent on the PLO, or SWAPO, or Cuba.

Therefore, that I think we probably provide very little direct support for the PLO. We provide support to Palestinians in areas where the PLO is very strong, and that is controversial. But the actual funds, support level, I would trust the new study of the Heritage Foundation, rather, better than ours. Does anybody have their study?

The Heritage Foundation has done a recent study of U.S. funding and U.N. funding for the PLO and other national liberation organizations. I thought, as I looked at their discussion, that it looked better to me than other estimates I had seen.

In 1981 the United States withheld a total of $481,000 from our contributions, voluntary contributions to U.N. agencies, under the requirement that we withhold funds.

My comment on this matter, it is very difficult to get reliable figures on this sort of thing. The reason is that the United States has no authority to audit any of the U.N. accounts, of course, nor can we control the manner in which they are kept. They are not kept in such a way that they make it easy, or even in many cases possible, to identify the portion of the expenditure which is directed to such organization as the PLO.

So, I would just say that I think the Heritage Foundation report is probably the most reliable source, if you will permit me.

### U.N. FUNDING

Senator **Kasten**. It is an estimate, I guess. But we, and basically other Western democracies, contribute roughly 90 percent of all the U.N. funding. We are nearly always outvoted on budgetary priority questions. I think that is what you are getting at in your last answer.

Would you favor some kind of a change in the voting system at the United Nations whereby we could establish the kind of a system similar to the system we have, for example, in the World Bank where votes are based on contributions rather than simply straight votes, no matter who you are?

Ambassador **Kirkpatrick**. Senator Kasten, it certainly would have an impact on voting in the United Nations.

Now, to give you an example, in the example of the Golan Heights Resolution which was passed in the General Assembly about 6 weeks ago, it was one of the recent anti-Israel resolutions at a recent special session of the General Assembly, initiated to attack Israel.

In that resolution, on which we voted "no" and most of the other democracies voted "no," 1986 votes—86 countries—voted "yes" on that resolution.

I understand that the total contribution of those 86 countries is less than that of the United States alone, the total contribution of the 86 "yes" votes was less than the financial contribution of the United States.

Would I support weighted voting based on financial contribution? That would totally destroy the United Nations as we know it. It would violate all the most basic principles of the United Nations which are "one country, one vote." It would violate the principle of majority rule, and it would make it a financially based oligarchy.

Now, I guess really, Senator Kasten, I do not think that is a very good idea. I think that it is very reasonable in a financial institution to have that kind of financially based voting. But I guess I really do not think it is reasonable in bodies like the Security Council or the General Assembly whose purposes are remote from financial decisions and responsibility to make weighted voting just based on financial contributions.

Senator KASTEN. Let me just follow up, then. Right now we, the United States, are contributing roughly 25 percent. That is higher than the percentage that we put into most voluntary organizations, and it is also a higher percentage than we give to most of the international financial institutions, some of which have weighted voting.

Would you support a reduction therefore, say to roughly 20 percent of the total United Nations assessed budget, rather than 25, simply recognizing that our dollars are not getting as much of a return anyway?

Ambassador KIRKPATRICK. Senator Kasten, I certainly would support a reduction. As I am sure you know, the dues structure is established by the United Nations and is vested in the Charter. Revision of the dues structure is very difficult. It has occurred but it is very difficult.

It raises an interesting question whether, if the dues structure were to be altered, it could be argued that the Charter of the United Nations was being altered, and since the Charter is a treaty it would have to come back before the Senate for ratification.

That argument has been made in relationship to alteration of dues. The dues structure reflects a time when the United States was, as compared to most of the rest of the world, richer than we are now as compared to most of the rest of the world. I think it reflects a past reality before the full economic recovery of Western Europe and economic development of some of the Asian nations.

It is out of date. It is anachronistic. I think we pay an unfair share. But I do not see any likelihood of having that dues structure altered in the foreseeable future.

### BUDGET ACCOUNTABILITY

Senator KASTEN. You talked about the difficulties of budgeting accountability control of the overall U.N. budget, especially as we get into the agencies, the subagencies and the various groups.

If you have any recommendations for how we in the Congress could make it easier for you to have a little bit more accountability or a better handle on how money is spent, we would like very much to work with you—either through report language or through actual bill language.

I am sure that this kind of support would be in the authorizing committees, as well as the appropriating committees, and it is a bicameral and a bipartisan concern. It is of great concern to a large number of us here. There will probably some questions we will submit to you.

If you could give us some ideas as to how we can start to get a handle on that problem.

Ambassador KIRKPATRICK. May I comment, at least on the problem? I know more about the problem than I do about the solution.

Senator KASTEN. That is what most of us would say.

Ambassador KIRKPATRICK. One of the reasons that it is so very difficult to even determine what our actual contributions to the United Nations are is that they take so many forms, and they filter through so many different budgetary mechanisms.

We, for example, do quite a bit of contributing not only to agencies like the UNDP or UNICEF not only directly through direct appropriation by the Congress but the kind of subcontracting, as it were. The Congress may appropriate funds for, let's say, the Department of Commerce. The Department of Commerce may then allocate a certain amount to support *x* activities, the physical activities, or whatever, of UNDP or the U.N. Statistical Commission. It never appears as a line item. Their contribution never appears in the total contribution to the United Nations.

They may also provide services in kind. There is a very great deal of second, third, fourth, fifth level, even, transfer of funds that finds its way from a portion of the U.S. Treasury into some activity or program of the United Nations.

I have, as a consequence, very little confidence in any of our gross figures about the costs of the United Nations to the United States or even the contributions of the United Nations to the United States because costs would also include things like personnel costs for U.S. personnel.

## U.S. CONTRIBUTIONS TO THE UNITED NATIONS

The United States, as you perhaps know, was not reelected to the Statistical Commission a year ago. For the first time ever the United States was denied a seat on a body, on a standing committee. In the past, permanent members have always been guaranteed seats on any committee which they chose to serve on—all permanent members. We support the Soviets on this and the Soviets support us. All five permanent members have had seats on any committee they wanted.

That permanent member rule has been under attack in the last 2 or 3 years, and in the last 2 years we have been denied seats on two important commissions at the United Nations, the Statistical Commission and the Civil Service Commission of the United Nations.

We have taken a special interest in U.S. contributions to those commissions as a consequence, and we have attempted to try to determine what those contributions are and how we make them, just to get a handle on them.

What is revealed is a maze, a spiderweb, virtually, of overlapping, interlocking tangled lines of financial allocations from the U.S. Government to various operations of the United Nations.

I think we need the help of the Congress on this, and I think that rational budgetary controls require that we know a good deal more precisely than we do now about what the total level of the U.S. contribution is.

Senator **Kasten**. As you are aware, I think, besides the request for UNDP and UNICEF, this subcommittee is asked to approve funding for a number of different programs.

The U.N. Voluntary Fund for the Decade for Women was one that came up the last time; UNESCO World Heritage Fund; U.S. Institute for Training and Research, all these are coming in one form or another to this committee, and I am sure that a number of them will be coming through the State, Justice, and Commerce Committees, as well, even apart from that other group.

So, maybe that is something that we can work on and make some progress on because I think it is a clear problem.

Ambassador **Kirkpatrick**. Senator Kasten, may I ask about whether the Congress has any sort of requirement for special identification of funds transferred from one Government department to either other Government departments or international bodies?

Senator **Kasten**. I am told that we do within our subcommittee. The dollars that are transferred that we have appropriated that need to be reprogramed, or changed, or whatever. But evidently there is no umbrella system like that. The Agriculture Subcommittee gets a lot of money which ends up in various programs.

That is something we can possibly do, working with some of the other Appropriations subcommittees and put it in the overall appropriations bill.

Incidentally, the prohibition on PLO, SWAPO, Cuba, et cetera, came from our subcommittees. It is one of the issues that we are debating right this moment on the floor. So, I am confident that we will be able to keep that.

### SCIENCE AND TECHNOLOGY FUND

It is my understanding that there are ongoing efforts to try to resurrect a Science and Technology Fund in the United Nations which, as you know, was specifically rejected by Congress and by our subcommittee as being duplicative and unnecessary, given the UNDP's mandate for those same kinds of tasks.

Can you tell us a little bit about this new effort and, given our bill language and report language regarding it, why would they continue to try to ressurect that fund?

Ambassador **Kirkpatrick**. Let me say, I am not an expert on that. We have an Ambassador in the Mission, Ambassador Sorzano, who has very closely followed the various efforts of the resurrection of the Science and Technology Fund. I would commend him to you as a more reliable source of information than I. He is not here with me today.

However, I will simply say that I know a bit about it and I can tell you that there simply, as is often the case, a body of people who believe that there is a need for an independent Science and Technology group. As is so often the case, there is a kind of tangle of personal interest and professional conviction here, and they continue to work on this problem—even though certainly the United States has made a clear decision, and I think some other countries have as well.

There is a good deal of duplication within the United Nations agencies. We work all the time trying to eliminate duplication and rationalize the operations somewhat. Now, as in the U.S. Government, there are a lot of people with vested interest in maintaining and sustaining duplication. I think that is what happened there, basically.

There is an idea now about a new approach to Science and Technology which would provide for different kinds of relationships between donors and recipients. But it is very much in the drawing board stage.

Senator **Kasten**. Well, we on this subcommittee, in particular, felt very strongly about this unnecessary duplication. I think it is a concern that is felt by a number of people, and it is something that we are going to continue to watch.

### UNICEF

The administration is seeking a reduction in the contribution to UNICEF. It is not a large reduction but, given my experience as chairman, I think this is one of the programs within the United Nations that seems to have very strong support here on the Hill.

I am not sure what kind of political sense it makes, given UNICEF's wide popularity and acceptability among the Congress and the American people, to make these kinds of reductions.

Do you know anything specifically why we are seeking that UNICEF reduction?

Ambassador **Kirkpatrick**. Senator Kasten, may I say that I believe that there are a number of programs in the United Nations which are supported by the United States, which thoroughly deserve our support. I think UNDP is one, UNICEF is one, the High Commissioner on Refugees, population programs.

There are some very good programs funded and administered by U.N. voluntary agencies, specialized agencies, which accomplish the kinds of purposes which Americans have always wanted to try to support through tax dollars and in our personal philanthrophy.

Now, certainly I think UNICEF falls in that category. When anybody proposes reducing a UNICEF program it is in no sense because of a desire to communicate, however covertly, that we do not think UNICEF is quite up to snuff. We simply, I suppose, are confronted with the need to reduce budgets. We all have had very agonizing appraisals, reappraisals of what could be cut, and what was less urgent.

UNICEF, as you know, the UNICEF budget, is very large, the U.S. contribution to UNICEF is very large, and the UNDP is very large. So, the administration proposed some cut in both of those—but not out of any desire whatsoever to penalize those programs, because we think very well of them.

Not only are they well-run programs, but they are very sensitive to the United States and to our concerns and values. They are responsive, we get answers to our questions. We get help when we need it. We certainly do not in any sense desire to censure or oppose those programs, we are just confronted with trying to bring a runaway budget under control.

### THE FALKLANDS SITUATION

Senator **Kasten**. Senator Leahy.

Senator **Leahy**. Thank you, Mr. Chairman. I apologize for not being here earlier. I realize we are all going to leave now for a vote. That is one of the problems up here, having the Intelligence Committee meeting, the Agriculture Committee meeting and one other committee I serve on all meet at the same time.

I know that the chairman has asked a number of questions. I do have a couple that I would ask you to submit for the record subsequently. I realize you have already discussed the Falkland Islands, I just have a couple of questions on that.

Have you been to Argentina in your capacity as U.N. Ambassador?

Ambassador KIRKPATRICK. Once.

Senator LEAHY. Once since you assumed your post. When you were there, in the discussions you had, did discussion of the Falklands come up at all while you were down there?

Ambassador KIRKPATRICK. No, I wish to God they had, Senator Leahy.

I, last August, visited six Latin American countries as U.S. Ambassador to the United Nations, among those was Argentina. I had a very pleasant 3-day stay in Buenos Aires.

I, as a university professor, had been interested in Latin politics and southern Latin American politics particularly. I once wrote a book on Argentina, on the Peronist movement.

So, I began with a basis of good communication with a number of members of the Argentine Foreign Office. We talked about a great many problems. There never was a reference to the Falkland Islands-Las Malvinas.

We talked a great deal about the Beagle Channel problem, and I was very thoroughly briefed on the Beagle Channel problem before I left Washington by the State Department. I sought out an archbishop who was there representing the Vatican in that mediation.

I had conversations with the Argentine Government about the Beagle Channel Island, making very clear our strong support for mediation, strong opposition to any kind of solution that was not wholly peaceable. Never was there a reference to the Falkland Islands.

Senator LEAHY. When it finally did start and the Argentines moved in, the British came down and so on. In discussions that you had in New York, did you feel that the Argentines thought that the United States would eventually side with them? That we would accept their position?

Did they act under any illusions about what the U.S. position would eventually be?

Ambassador KIRKPATRICK. Yes, I think this whole crisis is a tragedy of misconception, actually misjudgment, misestimation. I think the Argentine Government severely misestimated the British reaction to their seizure of the Falklands.

I think they also misestimated our reaction to it. I do not think they ever expected support from the United States, but I believe that they expected neutrality from the United States.

If I may say from my intensive experience and conversations over the last days with a good many other Latin American representatives from other Latin countries that are friends of ours, I think they all expected neutrality from us. That was a misestimate and a misapprehension concerning us.

### LATIN AMERICAN VIEWS

Senator LEAHY. So, you think the type of support that we have given Great Britain came as a surprise to them?

Ambassador **Kirkpatrick**. A very great surprise. It came as a surprise to them and came as a surprise to almost all the other Latin American countries—like Venezuela, Peru, Ecuador, Colombia. Virtually all of them were greatly surprised by this.

Senator **Leahy**. Do you think that this surprise has affected in any way the efforts to negotiate a settlement of the Falkland Island dispute?

Ambassador **Kirkpatrick**. No, no.

Senator **Leahy**. Then, do you feel that whatever motivation they might have to negotiate along any particular line would remain the same, irrespective of the steps that we have taken vis-a-vis Great Britain?

I realize that calls for a rather subjective answer.

Ambassador **Kirkpatrick**. Right. I guess, Senator, I think it affects our availability.

Senator **Leahy**. You mean as a mediator?

Ambassador **Kirkpatrick**. Our credibility.

Senator **Leahy**. Yes.

Ambassador **Kirkpatrick**. There is a very great deal of bitterness about us. I have been listening to a quite a lot of it in New York.

Usually, I listen to bitterness about us from Moslems and Africans, and now the last week I have been listening to bitterness about us from South Americans. That is a rather new experience, particularly from such good friends as the ones I have just mentioned already.

You know, there is a very strong, widespread feeling that we have betrayed them. The level of Latin American unity in this crisis is quite extraordinary, it is almost unprecedented, I think. And so is that sense that one encounters everywhere—it is not just a "sense" I mean, it is a protest. It is a very articulate protest that we are traitors, we have betrayed the hemisphere. We do not care about the Americas.

I cannot imagine that it makes it easier to negotiate a settlement. I think in fact from my understanding of the situation, from the debates we had yesterday and the resolution in the Security Council, it is in fact the British who have decided now that there will be no negotiated settlement of this conflict.

They announced yesterday that they would not accept a cease-fire except after the withdrawal of Argentine troops from the islands, and that they would not accept any withdrawal which linked withdrawal of British troops to the withdrawal of Argentine troops.

Now, they did on the other hand accept in principle the idea of mediation, the Secretary General's mediation—but making it clear that it could not lead to either cease-fire or mutual withdrawal.

So, I think that negotiations are clearly at a dead end, and for reasons other than the ones you suggested.

Senator **Leahy**. Would there have been any sense of betrayal if we had remained actually neutral? I mean not only talking neutrally but truly had remained neutral in the thing, would there have been a sense of betrayal there? Would there have been a feeling that we should have been more than neutral?

I am talking about from South America.

Ambassador **Kirkpatrick**. No, I do not think so. I do not think anybody expected, in South America, more than neutrality from us.

Senator **Leahy**. Neutrality.

Ambassador **Kirkpatrick**. But in Britain, of course, there would have been a sense of betrayal there.

### NATO VIEWS

Senator **Leahy**. Obviously my next question, within not only Great Britain but within the NATO alliance, would we have been sorely taxed for not joining Great Britain, in your estimation?

Ambassador **Kirkpatrick**. In my estimation—and I would like to make it very clear that is my estimation—I think surely my understanding of British public opinion is that they felt we should offer them active support. There is a good deal of criticism going on of our failure to offer them active support before we did so.

I do not think that feeling really extended to the NATO alliance generally. In fact, informally most representatives of the European NATO powers explained that they understand that the United States has important hemispheric interests as well.

And furthermore, of course, NATO alliance behavior in the past has not committed alliance members to actions outside the area of the alliance. That is one of the big complaints. We have tried to interest alliance members in commitments beyond the area of the alliance, that is beyond the area of the NATO treaty powers.

Senator **Leahy**. Madam Ambassador, I appreciate that, and I appreciate your candor. I have a number of questions, and I am intrigued by your suggestion to convene the United Nations part of the year in Moscow. I have a couple of questions on how the funding of that might work. I do not mean that facetiously, I think it is an intriguing suggestion.

I will submit those, if I might, for the record, seeing the 5-minute bell having rung 3 minutes ago.

Senator **Kasten**. Thank you, Senator Leahy.

Ambassador Kirkpatrick, thank you for your testimony. I think that in the interest of your schedule and ours—we are not sure what is going to happen after the vote on cloture, and it could be that we are in the process of shuttling back and forth.

We have had an opportunity to ask you a number of questions, and I very much appreciate your testimony here. I am sure that there will be some questions from some of the Senators who were unable to attend. We will submit those questions to you in writing, and hopefully you can get back to us with answers.

I look forward to working with you closely this year and the next several years. Frankly, I hope that I am going to be able to repay your visit here by going to New York for a better look at the United Nations activity sometime within the next several months.

### SUBMITTED QUESTIONS

This concludes our hearing this afternoon. The record will remain open for 2 weeks, during which time members may submit questions for the record, to be answered by the Ambassador and the International Organizations Affairs Bureau of the State Department. We hope that these questions could be answered within 2 weeks.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### U.S. CONTRIBUTIONS TO UNDP AND UNDP EXPENDITURES BENEFITTING THE U.S.

Chairman Kasten: Would you provide a listing of U.S. contributions to UNDP for the past five years and include a list of UNDP expenditures for contracts, office rental, goods and services, U.S. experts' and consultants' fees awarded to American nationals?

Mr. Newell:

U.S. CONTRIBUTIONS TO UNDP, 1977-1981
(in millions of dollars)

| YEAR | CONTRIBUTION |
|---|---|
| 1977 | $100.0 |
| 1978 | 115.0 |
| 1979 | 126.0 |
| 1980 | 126.0 |
| 1981 | 125.8 |

UNDP EXPENDITURES DIRECTLY BENEFITTING THE UNITED STATES, 1977-1981
(in millions of dollars)

| YEAR | OFFICE RENTAL AND SUPPLIES | U.S. EXPERTS | EQUIP-MENT ORDERS | U.S. CONTRACTS | U.S. FELLOWSHIPS | TOTAL |
|---|---|---|---|---|---|---|
| 1977 | 51.7 | 20.1 | 13.9 | 2.5 | 4.9 | 93.1 |
| 1978 | 55.7 | 23.6 | 18.0 | 13.2 | 6.5 | 117.0 |
| 1979 | 63.4 | 28.0 | 32.4 | 19.3 | 7.0 | 150.1 |
| 1980 | 72.3 | 33.3 | 39.4 | 15.7 | 9.4 | 170.1 |
| 1981 | 83.2 | 38.0 | 39.5 | 12.1 | 11.2 | 184.0 |
| TOTAL | 326.3 | 143.0 | 143.2 | 62.8 | 39.0 | 714.3 |

### 1981 CONTRIBUTIONS TO UNDP

Chairman Kasten: Please provide a chart listing the recipient countries' contributions to UNDP in 1981, illustrating what recipient countries increased their contributions over the previous year.

Mr. Newell: The following chart provides contributions pledged to UNDP by recipient countries for 1980 and 1981, as listed in the annual report for 1981 presented to the UNDP Governing Council by the Administrator. Those countries whose pledges increased from 1981 to 1982 are indicated with an asterisk.

| COUNTRY | 1980 Pledge | 1981 Pledge |
|---|---|---|
| *Afghanistan | - | 33,000 |
| Albania | 4,286 | 4,286 |
| Antigua | - | - |
| Algeria | 665,000 | 665,000 |
| Antigua | - | - |
| *Argentina | 1,704,300 | 1,942,902 |
| Bahamas | 91,500 | 11,500 |
| *Bahrain | 54,820 | 56,000 |
| *Bangladesh | 126,974 | 152,400 |
| Barbados | 19,838 | 19,838 |
| *Belize | 15,000 | 16,000 |
| Benin | 5,000 | 5,000 |
| Bermuda | 15,659 | - |
| *Bhutan | 2,600 | 2,990 |
| Bolivia | 15,000 | 15,000 |
| *Botswana | 19,206 | 22,293 |
| *Brazil | 2,014,000 | 2,295,960 |
| *British Virgin Is. | - | 6,000 |
| Brunei | - | - |
| *Bulgaria | 686,620 | 762,911 |
| *Burma | 850,769 | 998,550 |
| *Burundi | 21,744 | 22,334 |
| *Cape Verde Is. | - | 2,000 |
| Cayman Islands | 14,800 | - |
| Central African Rep. | - | - |
| Chad | - | - |
| *Chile | 710,000 | 750,000 |
| China | 1,415,517 | 1,400,000 |
| *Colombia | 1,085,500 | 1,200,000 |
| *Congo | - | 5,000 |
| Cook Islands | 47,753 | - |
| Costa Rica | 120,000 | 60,000 |
| Cuba | 726,116 | 715,995 |
| Cyprus | 100,000 | 102,000 |
| Czechoslovakia | 710,498 | 636,252 |
| Democratic Kampuchea | - | - |
| *Democratic People's Republic of Korea | - | 213,415 |
| *Democratic Yemen | 5,750 | 6,612 |
| Djibouti | 2,034 | 2,000 |
| *Dominica | 5,000 | 37,037 |
| Dominican Republic | 163,200 | - |
| *Ecuador | 468,000 | 696,000 |
| *Egypt | 639,736 | 687,756 |
| El Salvador | 185,000 | - |
| Equatorial Guinea | - | - |
| Ethiopia | 146,021 | 145,021 |
| Fiji | 50,000 | 50,000 |
| Gabon | 183,036 | - |
| Gambia | 7,274 | - |
| *Ghana | 152,353 | 192,727 |
| *Grenada | - | 6,111 |
| Guatemala | 226,000 | 189,000 |
| Guinea | 6,410 | - |
| Guinea-Bissau | 2,000 | 921 |
| *Guyana | 140,439 | 186,115 |
| *Haiti | 6,000 | 6,500 |

| COUNTRY | 1980 Pledge | 1981 Pledge |
|---|---|---|
| *Honduras | 33,000 | 56,500 |
| Hong Kong | 8,000 | 8,000 |
| Hungary | 499,131 | 468,495 |
| India | 7,759,329 | 7,590,361 |
| *Indonesia | 1,895,736 | 2,005,459 |
| Iran | - | - |
| *Iraq | 748,475 | 755,933 |
| Ivory Coast | 359,048 | 315,727 |
| Jamaica | 67,978 | 68,197 |
| *Jordan | 200,000 | 220,000 |
| Kenya | 72,816 | 71,429 |
| *Kiribati | - | 16,860 |
| Kuwait | 570,000 | 570,000 |
| *Lao People's Democratic Republic | 17,250 | 19,660 |
| Lebanon | 340,000 | 340,000 |
| *Lesotho | 32,881 | 38,916 |
| Liberia | 171,000 | 71,000 |
| Libya | 1,150,000 | 1,150,000 |
| Madagascar | 451,721 | 344,130 |
| *Malawi | 26,163 | 30,000 |
| *Malaysia | 340,000 | 385,000 |
| *Maldives | 1,500 | 1,800 |
| Mali | 17,668 | 2,000 |
| *Malta | 61,155 | 64,480 |
| Mauritania | 65,480 | 4,000 |
| Maruitius | 84,472 | 81,891 |
| *Mexico | 1,468,299 | 1,673,810 |
| Mongolia | 187,018 | 187,119 |
| *Montserrat | - | 9,304 |
| *Morocco | 315,217 | 343,102 |
| Mozambique | 65,763 | - |
| Nauru | - | - |
| *Nepal | 38,500 | 40,000 |
| Netherlands Antilles | - | - |
| *Nicaragua | - | 1,000 |
| Niger | 8,389 | - |
| Nigeria | 936,850 | 758,725 |
| Oman | 75,000 | 75,000 |
| *Pakistan | 1,789,353 | 1,994,121 |
| Panama | 327,000 | 327,000 |
| *Papua New Guinea | 163,256 | 170,759 |
| Paraguay | 140,000 | 140,000 |
| *Peru | 530,000 | 570,600 |
| *Philippines | 1,088,000 | 1,088,000 |
| *Poland | 1,038,990 | 1,167,902 |
| Portugal | 134,000 | 64,000 |
| Qatar | 200,000 | 200,000 |
| Republic of Korea | 838,000 | 838,000 |
| *Romania | 508,275 | 600,000 |
| Rwanda | 10,000 | 10,000 |
| *Samoa | 3,000 | 10,000 |
| Saudi Arabia | 2,500,000 | 2,500,000 |
| *Senegal | 160,000 | 200,000 |
| *Seychelles | 974 | 1,000 |
| *Sierra Leone | 75,000 | 90,000 |
| Singapore | 220,000 | 220,000 |

| COUNTRY | 1980 Pledge | 1981 Pledge |
|---|---|---|
| *Solomon Islands | 40,000 | 41,000 |
| Somalia | 5,618 | 5,618 |
| *Sri Lanka | 560,000 | 600,000 |
| *St. Kitts | - | 14,815 |
| St. Lucia | - | - |
| *St. Vincent | - | 12,000 |
| Sudan | 200,000 | 200,000 |
| *Suriname | 70,000 | 82,500 |
| *Swaziland | 7,894 | 15,915 |
| *Syria | 278,462 | 283,526 |
| *Thailand | 1,272,030 | 1,273,030 |
| *Togo | 128,456 | 168,550 |
| Tokelau | 1,280 | - |
| Tonga | - | - |
| Trinidad & Tobago | 165,837 | 165,837 |
| *Tunisia | 435,327 | 443,642 |
| Turkey | 1,085,765 | 1,085,765 |
| Turks and Caicos Is. | 24,480 | - |
| Uganda | - | - |
| *United Arab Emirates | - | 675,000 |
| United Republic of Cameroon | 236,117 | 195,407 |
| *United Republic of Tanzania | 98,280 | 121,212 |
| Upper Volta | - | - |
| *Uruguay | 570,000 | 649,800 |
| Vanuatu | - | - |
| *Venezuela | 2,160,000 | 2,360,000 |
| Vietnam | 5,000 | 5,000 |
| *Yemen | 6,000 | 8,000 |
| Yugoslavia | 2,740,516 | 2,740,516 |
| Zaire | 882,000 | - |
| *Zambia | - | 25,000 |
| Zimbabwe | - | - |

## EVALUATION OF UN DEVELOPMENT PROGRAMS

Chairman Kasten: Please provide for the record the State/AID Summary Report evaluating UNDP field activities in 1981.

Mr. Newell: I am providing separately the summary report of the evaluations of UN development activities carried out by our missions in 1981. You will note that the development activities not only of UNDP but also of the other UN entities are treated.

# ANALYSIS OF CERP-0008 REPORTS (1981-82)

This airgram summarizes information derived from some fifty CERP-0008 reports received since April, 1981. These biennial reports have been most useful to the Department, IDCA/AID, and other USG agencies in assessing the effectiveness and efficiency of UN system development assistance (excluding Bretton Woods institutions) activities and their compatability with United States interests. This analysis will also be shared with Congress to assist in the latter's consideration of U.S. contributions to regular budgets and voluntary accounts of the development-related Specialized Agencies and entities of the United Nations system.

The following comments follow the revised CERP-0008 format transmitted to the field by Airgram State A-542 (1981).

## Introduction

With few exceptions, posts found that their host countries were firmly committed to development and highly appreciative of the assistance provided by the UN system. All missions pointed to compatibility of host country and UN system development objectives, and most stressed the very close relationship which existed between the UN system representatives and host country officials. The exceptions involved middle-income LDCs which are more able to finance their own development efforts and which apparently have less incentive to comply with conditions attached to the modest UN system programs. Additionally, several posts indicated that the local governments were so politically mismanaged or institutionally underdeveloped that it was misleading to consider such governments as properly oriented to development. One report even indicated strong xenophobic tendencies which uniformly limited the development impact of both UN system and bilateral programs.

## A. Importance of UN System Contribution

### Host Country Support

When commenting on host country support of UN system assistance as compared with bilateral efforts, there appeared to be some inconsistency in the majority of replies. On the one hand, most denied the existence of any host government preference for UN over bilateral aid, although they then proceeded to note certain advantages which some UN system activities appeared to have over bilateral efforts. A general preference for UN system assistance was noted, because it lacked the "stigma of colonialism" and provided "relatively unbiased advice." Reference was made to the UN's neutral, apolitical nature and greater host country willingness to assign UN technicians to sensitive areas of government (assistance to Ministries of Planning/Finance was the most often cited example). Confidence in the UN system and the opportunity for greater host government participation in program planning and project design were also mentioned as advantages. Other recognized virtues included a wider selection of technical experts (having linguistic and cultural affinities), untied procurement of equipment, wider access to training, and greater program flexibility. (The latter point was also cited as a negative feature, because modest resources were often reported to be spread so thinly that governments sometimes tended to lose sight of them and to pay insufficient attention to meeting counterpart commitments.) A few recipients were reported to be less favorably disposed to the UN, owing to the latter's modest funding levels (and consequently too small-scale projects,) or preferences for bilateral assistance from donors more akin to local political philosophies.

## UN System Assistance Levels

In quantitative terms, most reports indicated that total UN system assistance (i.e. UNDP plus separately-funded UN Specialized Agency involvement) was modest and - at best - constituted less than a tenth of development grant assistance to any country. However, the recognized advantages of the UN (as pointed out in the proceeding paragraph) tended to compensate for the smaller financial input and sometimes yielded disproportionately high returns. It is also interesting to note that UN system contributions constitute the highest percentage of total external grant inputs in the "middle-income" LDCs, or those countries from which most bilateral donors have already withdrawn from operations (Yugoslavia, Bulgaria, Nigeria, Uruguay and Venezuela all depend on the UN system for at least 50 percent of their external grant assistance needs). This is not meant to imply that the UN gives more money to "middle income LDCs but rather that it tends to be slower in terminating its concessional aid than other donors, and even modest input can consequently appear to be more significant.

Furthermore, more than one-half of the reports indicated that UNDP assistance constituted less than 50 percent of the total UN system assistance within these countries. This suggests that USG efforts to promote UNDP as the central UN funding agent for development assistance have not been particularly successful. The majority of non-UNDP-funded activities are "independently-financed" and are implemented in varying degrees of collaboration with UNDP, by entities such as UNICEF, WFP, WHO, FAO, and other UN bodies which have 'operational' sections within their regular budgets or extensive trust funds of their own. What seems clear is that UNDP's Country Programming exercise, its evaluation process, and the Resident Coordinator's UN coordination role have less effect on the bulk of UN system activities in-country than we would like to see.

## Pre-Investment Effectiveness

There were many favorable reports of successful UNDP pre-investment activities. These were cited as one of host governments' greatest resources for stimulating MDB, bilateral and private sector involvement. Particularly for countries at a higher level of development, UNDP's pilot activities frequently encouraged investment from both the public and private sectors. Current successes deriving from UNDP pre-investment support include the Trans-Gabon Railroad project (Gabon Government), Nepal's Kulekhani Dam and hydroelectric plant scheme (IDA and ADB), rural development projects in North Yemen and Dominican Republic (World Bank and Inter-American Development Bank), a Dutch-financed forestry and mining project in Suriname, a geothermic power station in El Salvador (IBRD), and a clay roofing tile factory in Indonesia (ADB).

## Government Execution and National Project Directors

Successful implementation of such innovative steps as turning over project management responsibility to recipient countries would further demonstrate the importance of UNDP's financially modest but conceptually rich developmental contributions. Since government execution and the appointment of national directors entail considerably more host country commitment and institution-building, analytical reporting of successes and failures could help to determine the future level of USG support for such concepts. Unfortunately, not all posts addressed this question; those which did reporting general success in host government assumption of additional implementation responsibilities. Doubts were raised in a few reports, however, as to whether local governments had sufficient trained personnel to assume additional responsibilities on behalf of UNDP.

The pace at which UNDP assigns project execution responsibilities to recipient governments is naturally conditional on successful performance, and UNDP's criteria for judging this will continue to be debated at future UNDP Governing Council sessions. It is interesting to note that countries most suitable in terms of qualified personnel and institutional strength appear to be the most reluctant to undertake these new initiatives. It is important that UNDP's growing experience in host government execution and other "new dimensions" be matched by enhanced USG understanding of the benefits and pitfalls. The Department will accordingly seek to become better informed and would expect that future reports pay more attention to these innovative and possibly beneficial concepts.

## B. UN System Development Performance

### 1. Planning and Formulation

### Country Program

CERP-0008 reports were unanimous in their belief that UNDP's Country Programs closely matched host country needs, with Country Program priorities reflecting those of the national development plans. Most reports gave high marks to the preparation of the Country Program and to the active and--at times--leadership role played by the recipient governments. Resident Coordinators and UNDP field staff also received considerable praise for their contributions to the planning process. Several reports noted that the current Country Program exercise (Third Planning Cycle 1982-86) was considerably more thoughtful and thorough, with recipient government commitment and understanding greatly enhanced. It is interesting to note that the degree of host country participation in the CP exercize generally reflected a high level of host country commitment to UNDP-funded projects. There appeared to be no negative consequences reported, and no suggestion that UNDP merely "rubber-stamped" ill-conceived host country project proposals.

### Specialized Agency Participation

Reporting was less clear on the role played by the Specialized Agencies in the preparation of the UNDP Country Program. Few posts gave the question adequate attention; and those that did were evenly divided on the role Specialized

Agencies played. The feeling of extensive involvement was shared most strongly by the Latin American posts which drew particular attention to the useful participation of WHO/PAHO. However, other reports indicated that the Specialized Agencies played little or no role in the Country Programming process. This is important because inadequate representation at the country programming stage of UN bodies subsequently called upon to serve as executing agencies can lead to conceptual and implementation difficulties which could have been avoided through earlier collaboration. Our information seems deficient and continuing monitoring of Specialized Agency involvement in Country Programming exercises will be necessary.

## Non-UNDP Programs of the UN System

The mushrooming of non-UNDP-financed projects, and especially those financed through various Specialized Agency trust fund mechanisms, will undoubtedly undermine efforts by UNDP to maintain a coordinative role over all UN system development activities. Few reports chose to appraise the effectiveness of these non-UNDP development activities, and even these seemed inconclusive. Some noted that limited funding tended to discourage some Specialized Agencies from adopting a structured "country program" approach. Other reports suggested that those Agencies with a relatively large amount of money (e.g. UNICEF, WFP and WHO,) usually had gone farthest in effectively programming their funds, with project design, monitoring and evaluation comparable with UNDP performance. The Department must intensify its efforts to appraise the ramifications and effectiveness of independently funded activities of the Specialized Agencies, and field posts should pay particular attention to this in future CERP-0008 reports.

## UNDP/Specialized Agency Compatibility

Responses to CERP-0008's enquiry about the compatibility of independently funded activities with UNDP's Country Program were also inconclusive. While it was generally conceded that the various activities were complementary to the Country Program, two posts reported that the Specialized Agencies' endeavors were probably counter-productive to the countries' overall development efforts. One report questioned the development relevance of certain WFP and IFAD projects. The other pointed to certain Agencies whose endeavors appeared to be directed more to their own global concerns, rather than to the priorities of the recipient country.

## Regional Offices/Commissions

The role played by Specialized Agencies Regional Offices in the design and implementation of country-specific development activities was considered negligible by nearly all reports. (The difficulty of perceiving the regional office functions and responsibilities may have discouraged other posts from even addressing this issue.) Despite limited responses, it seems apparent that the regional offices (including the UN Regional Economic Commissions) provide only infrequent assistance to UNDP field offices in the design and implementation of the Country Program (or anything else, for that matter). They also appear to be little connected with the design and execution of projects originating from headquarters and country offices (which continue to be the primary movers). It would seem that the regional offices' principal role is the promotion of "regional" projects - "promoting inter-country cooperation" - often having little identity with the individual recipient countries' priorities. The Department hopes that future reports will examine regional office activities in terms of relevance and importance to individual LDC priorities, and more intensively assess their value in promoting meaningful regional cooperation.

### 2. Implementation and Evaluation

### Specialized Agency Effectiveness With UNDP Funds

Posts generally agreed that the Specialized Agencies were performing well in their execution of UNDP-financed projects, although subject to the same local operational constraints as the bilateral donors. Their flexibility (e.g., use of single expert "OPAS" projects) was seen as a distinct advantage, as was their wide choice of expertise and equipment. There were many favorable comments on the quality of Specialized Agency technical expertise. ICAO was singled-out for particular praise for its consistently high quality of technical assistance. However, some reports were critical of the uneven quality of expatriate experts and their tendency be over specialized when, in fact, more general and basic knowledge was required. One host government was reported disappointed because (possibly through the efforts of TCDC,) too many Asian experts had been assigned when, in fact, top quality and high technology expertise from the West had been desired.

The bureaucratic layering of the Specialized Agencies was considered a contributory factor to implementation delays. One report from Asia pointed to the slow decision-making process throughout the UN system and the resulting delays in project execution. Many reports pointed to delays in the recruitment of experts and in delivery of equipment (equivalent to the performance of bilateral donor bureaucracies). Although the Specialized Agencies came in for a share of criticism, it was proportionally small in comparison with what was directed at the recipient countries. Most reports felt the major cause for delay was due to host government deficiencies. Most often, blame was attributed to lack of counterpart personnel and the inability to identify suitable candidates for training. Reports attributed this to management and resource limitations rather than any lack of ideological commitment to development.

### UN Volunteers

Most reports either failed to address this issue or indicated that UNV programs were not in place. The few responses were generally favorably disposed, viewing the UNV as a valuable component of UN system's technical assistance resources. Several indicated that highly skilled (and highly paid) expertise often was unnecessary and under-utilized. Instead, the intermediate skills of UNVs were entirely adequate for the needs at hand. Some pointed out that current financial constraints made use of UNVs a very important device for countering the high costs of expatriate technical expertise. Another response contrasted the way UN volunteers were satisfactorily integrated into UN projects to the way bilateral volunteers were often left to their own devices. The only unfavorable comments were directed to the large number of salaried LLDC volunteers and questioned whether their motivation was entirely altruistic, particularly as they came from countries which themselves were seriously underdeveloped and suffering from "brain drain."

## Specialized Agency Effectiveness With Their Own Funds

Our perception remains imperfect as regards any differences which may exist between Specialized Agency design, implementation, and evaluation of UNDP-financed and independently-financed projects. The few posts which replied indicated little or no qualitative difference between projects funded by UNDP and those funded independently of the UNDP Country Program by the Agencies. In some instances it was felt that the Specialized Agencies were doing a better job on their own, because they did not have to adhere to UNDP regulations and consequently could act more quickly and effectively. Others noted that UNDP controls "strengthened" the process and that, without such input (i.e., financial controls and evaluation requirements), performance criteria were less stringent and evaluations less frequent. One report suggested that some independently-financed projects reflected efforts to "curry favor" from governments rather than to strengthen commitment to development. Unfortunately, with such rudimentary impressions, the Department is ill-prepared to argue convincingly for or against independently-funded projects by the Agencies. Since trust funds and other "special program"-financed activities are expanding at a rate faster than contributions to UNDP, it is with some urgency that the Department adopt a more knowledgeable position.

## Evaluation

Post responses to questions under this heading were generally encouraging, as they confirm that UNDP commitment to a systematic and effective evaluation process was genuine and meaningful. Almost all reports indicated that UNDP's evaluation procedures were in place and were effectively utilized. However, there was less certainty that project shortcomings (i.e., strengthening weak projects and eliminating marginal ones) were always addressed adequately. Some opined that UNDP's emphasis on recipient country responsibilities - particularly self-reliance in programming and managing development funds - tends to discourage corrective measures, owing to considerations of host country prestige. A few reports indicated that UNDP's procedures were not being effectively utilized, noting that the tripartite review was sometimes too subjective, and with the Specialized Agency or government representative sometimes insisting on retaining a marginal project for political reasons.

## C. Coordination and Related Functions of UN Resident Coordinator

## Strengthened Leadership

The vast majority of reports gave good to excellent ratings to the Resident Coordinators' development experience and managerial ability. Posts frequently mentioned the good relationships which the Resident Coordinators had cultivated with government officials.

Posts also reacted favorably to the current process of upgrading UNDP Resident Representatives to UN Resident Coordinators. Most agreed that it was a positive step in strengthening coordination among UN system development bodies. However, some pointed out that the UNDP Resident Representative system worked relatively well and--despite the name change--much will depend on the energies and abilities of the new incumbents. The designation is still so recent that it is premature to make a judgment. The scope of the Resident Coordinator's responsibilities is limited to the UN community, although we encourage a wider information-sharing if not fully coordinating role, including bilateral donors and voluntary agencies as well as the UN Specialized Agencies. Obviously the extent of the Resident Coordinator's involvement with non-UN agencies will depend on the host government's own capabilities, policy preferences, the disposition of other donors, as well as the character of the Coordinator himself. The Department wishes to monitor the performance of the Resident Coordinators and hopes posts will focus particularly on their coordinative responsibilities.

## UN System Coordination

Many posts felt that the Resident Coordinators had reasonably good control over UN system activities, regardless of funding sources. The informal mechanisms which they can enlist (e.g. demarches to host government or Specialized Agency headquarters,) can act as strong deterrents to project overlap or to projects with insufficient local priority to assure counterpart support and eventual assumption of full responsibility by the local authorities. In those few instances where coordinative effectiveness vis-a-vis UN system activities was questioned, primary responsibility was attributed to the host governments. For example, these reports pointed to host governments' jealously guarding their sovereignty and their desire to deal directly with each UN agency on a piecemeal basis.

## Non-UN System Coordination

Coordination of non-UN system activities is essentially limited to low-key coordination through monthly donor meetings or luncheons, or through the Resident Coordinators' performing clearing house functions. They generally received good marks in these endeavors. However, it was also felt that more needs to be done and that all donors have to make greater efforts to keep the UN Resident Coordinator adequately informed. He cannot be expected to perform this "informal" coordinating role unless there is complete cooperation on the part of all donors. Reports also noted that there was currently little instance of serious donor overlap. Cases of possible duplication were rare and were promptly reviewed by the Department and AID.

It also appears that the UN Resident Coordinators are making serious efforts to keep other donors informed of their activities through dissemination of Country Programs, significant evaluation reports, and other project documents. It is also widely felt that the likelihood of the Resident Coordinators' increasing their formal responsibilities to cover non-UNDP system activities is limited due to resistance on the part of some host countries and some donor representatives. Many responses indicated that host governments actively discouraged any formal coordinative role by the UN system. Only in three cases (all mid-level LDCs,) did the host countries encourage greater UNDP coordination.

UN/USAID Collaboration

Of those reporting posts with USAID missions (23 out of 50,) scarcely one-third felt that USAID and the UN Agencies enjoyed a close collaborative relationship! The most frequently cited functional collaboration was that between AID and UNFPA population officers. Some reports considered the USAID/UN system relationship inadequate. It was suggested that AID's sectoral development priorities were so narrowly defined that this precluded meaningful exchanges across the full spectrum of UN development concerns.

The CERP-0008 guidelines requested identification of possibilities for increased collaboration between AID and the UN system. Most posts could not identify major new possibilities; these focussing on AID's principal development sectors only. A few posts suggested that abundant opportunities existed for closer cooperation. These noted great similarities between local AID and UN programs and expressed the need for closer cooperation, not only to avoid duplication but also to share experiences.

UN Political Involvement

Responses to the enquiry concerning the Resident Coordinator's political role as UN 'Ambassador' to the host country failed to elucidate any fresh information. On the contrary, posts appeared to be unaware of any political involvement on the part of UN representatives. The occasional reference to UN Coordinator involvement in, for example, refugee matters, appeared to represent the full extent of post knowledge of UNDP "non-developmental" activities.

## D. Benefits Derived from U.S. Support for UN Development Assistance Activities

Private Contractor Performance

The questions relating to benefits accruing from UN development activities were well answered. They reflected very positive advantages of continued U.S. support. Although not yet significant in volume, U.S. contractor performance in the execution of UN system projects was generally reported in very complimentary terms. The report from China, for example, pointed to UNDP's initial use of the John Deere Company as consultants and this firm's subsequent selection by the Government of China to provide large amounts of equipment for mechanized agricultural projects (funded by China). Another reported that U.S. consultants initially retained by UNDP for a large road-building study recommended U.S. equipment which was eventually purchased by the host government from its own resources. Other benefits cited in CERP reports included Singapore's use of Harvard for a mass transit system study and the recruitment of a U.S.-staffed team for the Philippine Civil Aviation Training Center. Another report cited UNICEF's use of U.S. educational equipment and the host government's satisfaction with its quality, price and supplier maintenance services.

Potential for Greater Private Participation

Although most reports indicated that U.S. private sector involvement in UN activities was relatively limited, some saw possibilities for greater participation. Eastern European posts reported that U.S. firms were already the principal suppliers of high technology equipment (e.g., earthquake instruments and computers). Reports from Uruguay, the Philippines, and South Korea all indicated that higher technology needs could only be met through the U.S. and that there was considerable scope for greater U.S. private sector involvement in UN procurement. The China report indicated that one-half of the equipment used in UNDP projects is American and is preferred because of its high quality, price competitiveness, and advanced technology.

However, several reasons were given in reports as to why U.S. private involvement probably would never expand dramatically . The modest scale of most UN system projects tended to serve as a disincentive for many U.S. firms. Equally important was an apparent lack of interest on the part of U.S. suppliers, due possibly to an unawareness of UN contracting opportunities or lack of in-country business contacts. These reports suggest that U.S. entrepreneurs are not exhibiting the same interest and aggressive salesmanship for which they were noted in previous decades. Furthermore, when time permits, it would be interesting for the Bureau to examine how UNDP, UNICEF, and the Specialized Agencies circularize their project requirements and take their procurement decisions.

UN Activities Benefiting U.S. National Interests

Reports readily pointed to instances in which UN activities have been highly beneficial to U.S. political and economic interests. Frequently cited was the UN's use of U.S. technical expertise (especially short-term consultants) and the Western-oriented approach this gave to LDCs. Reports from the Communist states usually highlighted the UN presence as a means of keeping Western ideas accessible to the peoples of such countries. Other reports stressed America's predominant role in providing (UN-financed) academic and technical training. Many reports stressed the high level of compatibility between UNDP and U.S. foreign policy objectives, including UNDP's promotion of private enterprise, investment, trade, and institution-building. Several reports stressed the UN presence's stabilizing influence through its efforts to encourage domestic self-help and to improve the conditions of the rural poor.

Remedial Action

The CERP-0008 guidelines requested each post to identify any serious UN system shortcomings and, if possible, to suggest remedial action. Some reports described actual or potential problems; the most common being host government deficiencies in meeting counterpart commitments, and the consequent detriment to program objectives (an obstacle which equally applied to bilateral assistance). Furthermore, about 20 percent of the responses identified deficiencies in project performance (e.g., project planning, implementation or management) attributable to faults in the UN system (although equally evidenced in most bilateral aid programs). Delays in recruitment of technical assistants constituted the most common problem. Another concern was inadequate coordination between UN system and bilateral donors and the conviction that Resident Coordinators should exercise greater initiatives in the regard. (There was general satisfaction, however, with coordination within the UN system.)

On the basis of field reports the Department intervened on several occasions to initiate corrective action. For example, one CERP reported that a barley-exporting country was continuing to receive concessionary UN food aid (in the form of barley) from WFP. Department contacts with WFP Headquarters led to the termination of this form of assistance. On another occasion the Department's reaction encouraged USAID initiatives to strengthen the coordinating role of the local UNDP Resident Representative.

An unresolved question in many reports from higher income LDC posts is the extent to which such countries should continue to benefit from concessional UN assistance. The Department has requested these posts to advise whether such assistance is justified or whether these countries should be encouraged to more rapidly evolve to net donor status. To fully meet all project costs, a 'wealthy' recipient country should cover not only all project costs (as, for example, reflected in the UNDP Country Program) but also all related overhead costs incurred by UNDP and the Executing Agencies in the implementation of these projects. The unliklihood of significant increases in UNDP resources, coupled with the Governing Council's policy to concentrate UNDP assistance on low per capita income LDCs, argue strongly in favor of encouraging wealthier countries to pay more for UN assistance received. This, however, only addresses the financial problem. Regardless of how much an OPEC country, for example, "pays" for UN technical assistance, it is nevertheless diverting scarce UN manpower resources away from more needy countries. Although the UN system has a wider "pool" from which to recruit its technical experts, this source is not unlimited. An argument could be made for encouraging wealthier LDCs to recruit their expatriate experts from the private sector, and generally to operate with diminished reliance on the UN system. The political implications also have to be taken into account, however, and this is why certain posts have been requested to weigh the various arguments and to propose policies which best reflect USG interests in time for the Governing Council's consideration of Third Cycle Country Programs.

## UNCDF

**Chairman Kasten: What is the total pipeline of requests for UNCDF funds at this time?**

**Mr. Newell: According to the Administrator's Report to the UNDP Governing Council for 1981, the UN Capital Development Fund had approved a cumulative total of $253.7 million in projects and had disbursed an estimated $102 million. The difference, $133.7 million, is the total pipeline of UNCDF projects at this time.**

## UN CAPITAL DEVELOPMENT FUND OVERHEAD COSTS

**Chairman Kasten: What is the administrative overhead compared to project commitments made in 1981? Include the expenditure total and the percent of overhead costs involved of the total program.**

Mr. Newell: The Fund's direct administrative costs in 1981, covering salaries, common staff costs, consultant costs, official travel and general operating expenses, totalled $1,322,100 and were met by the UNDP administrative budget. Approvals (commitments) for 1981 totalled $71,100,000, of which $48,600,000 has been expended. Overhead costs, therefore, were the equivalent of 1.9 percent of the total program.

## UNCDF GROWTH RATE

Chairman Kasten: What has been the growth rate of UNCDF during the last five years?

Mr. Newell: The following chart provides this information:

| | Pledges | Percent Change |
|---|---|---|
| 1978 | $25,148,760 | |
| 1979 | $25,100,000 | 0.2% |
| 1980 | $28,700,000 | 14.0% |
| 1981 | $31,041,896 | 8.0% |
| 1982 | $26,833,456 (estimate) | -14.0% |

## UNCDF CONTRIBUTIONS

Chairman Kasten: How many nations have pledged funds to the UN Capital Development Fund? List them by name and individual contributions for FY 1982.

Mr. Newell: To date, a total of 44 nations pledged contributions for fiscal year 1982 to the UN Capital Development Fund (processing of the U.S. pledge is not yet complete). They are:

| | |
|---|---|
| Afghanistan | $ 2,000 |
| Algeria | 32,200 |
| Australia | 564,334 |
| Bangladesh | 3,289 |
| Benin | 2,000 |
| Bhutan | 1,150 |
| Botswana | 5,714 |
| Cape Verde | 2,000 |
| China | 127,168 |
| Cuba | 24,814 |
| Democratic Yemen | 1,456 |
| Denmark | 2,112,676 |
| Finland | 697,674 |
| Greece | 5,000 |
| Iraq | 13,559 |
| Italy | 2,100,840 |
| Jamaica | 3,000 |
| Lao People's Democratic Republic | 1,500 |
| Lesotho | 1,000 |
| Liberia | 10,000 |
| Malawi | 7,550 |
| Maldives | 600 |
| Morocco | 9,615 |

| | |
|---|---|
| Nepal | 1,000 |
| Netherlands | 6,041,667 |
| Norway | 4,794,521 |
| Sweden | 5,893,186 |
| Switzerland | 2,187,500 |
| Tunisia | 3,400 |
| Turkey | 153,153 |
| United Republic of Cameroon | 1,166 |
| United Republic of Tanzania | 2,424 |
| United States | (2,000,000) |
| Vietnam | 1,000 |
| Yemen | 2,300 |
| Zambia | 23,000 |
| TOTAL | 26,833,456 |

## UNDP PROGRAMS IN CHINA

Chairman Kasten: What specific programs will UNDP provide China through 1982? Please provide the Committee with a list of the projects and total costs including China's counterpart contribution.

Mr. Newell: I am supplying separately the requested list of UNDP projects in China as of January 31, 1982.

FIELD LEDGER [illegible]

People's Republic of China

As of 31 Jan. 1982

PAGE 1

na = not applicable
ina = information no available.

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt Contribution In kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/79/001/F/01/12<br>Grassland Development | 9,515 | 559,941 | 554,544 | 1,124,000 | | | 8,964,223 |
| CPR/79/002/I/01/31<br>Information Processing Centre | 1,132,982 | 4,281,023 | 830,189 | 6,244,194 | 375,275 | 954,531 | 11,760,000 |
| CPR/79/003/D/01/13<br>Modernization of Education | | 458,598 | 443,852 | 902,450 | 123,960 | | 22,461,840 |
| CPR/79/004/G/01/14<br>Health Manpower and Research | | 565,974 | 269,000 | 834,974 | 206,065 | | 2,300,000 |
| CPR/79/005/C/01/13<br>Foreign Languages Institute | | 402,063 | 155,664 | 557,727 | 62,650 | | 10,709,300 |
| CPR/79/006/E/01/16<br>Meteorological Improvement | | 355,348 | 584,500 | 939,848 | 561,000 | | 179,600 |
| CPR/79/007/E/01/01<br>Geological Interpretation | | 76,827 | 379,211 | 456,038 | 55,523 | | 1,750,000 |
| CPR/79/008/E/01/13<br>Motion-radio Telemetry Network | | 579,613 | 30,800 | 610,413 | 20,399 | | 572,000 |
| CPR/79/009/B/01/41<br>Automatic Sorting of Mail | | 36,425 | | 36,425 | | | ina |
| CPR/79/010/C/01/20<br>Institute of Telecommunications | | 212,421 | 117,776 | 330,197 | | | 3,285,000 |
| CPR/79/011/C/01/19<br>Oil Pollution Prevention | 3,057 | 150,179 | 238,800 | 392,036 | | | 7,000,000 |
| CPR/79/012/D/01/12<br>Aquaculture Study Tour | | 107,633 | (6,194) | 101,439 | | | 40,000 |

FIELD LEDGER (IPF)

People's Republic of China

As of 31 Jan. 1982

Page 2

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution In Kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/79/013/D/01/12<br>Study Tour in Forestry | 33 | 150,422 | (3,823) | 146,632 | | | n.a |
| CPR/79/014/D/01/12<br>Land Reclamation | | 32,989 | 67,011 | 100,000 | | | ina |
| CPR/79/015/C/01/37<br>Project Definition Mission | | ~~(5,000)~~ | | ~~(5,000)~~ | | | project cancelled |
| CPR/79/016/C/01/37<br>Light Industry | | 65,217 | 61,213 | 126,430 | | | na |
| CPR/79/017/D/01/37<br>Textile Industry Study Tours | | 93,780 | 32,725 | 126,505 | | | na |
| CPR/79/018/C/01/37<br>Study Tour in Food Processing | | 72,316 | 69,505 | 141,821 | | | na |
| CPR/79/019/D/01/37<br>Building Material | | 78,171 | 57,539 | 135,710 | | | not costed. |
| CPR/79/020/D/01/37<br>Computer Expert Services | | 16,576 | 116,146 | 132,722 | | | not costed |
| CPR/79/021/D/01/37<br>Machinery | | | 456,000 | 456,000 | 191,450 | | 209,000 |
| CPR/79/022/E/01/15<br>Civil Aviation | 14,134 | 279,466 | 8,534 | 302,134 | | | 10,000 |
| CPR/79/023/E/01/01<br>Wind Power | 3,409 | 79,171 | 13,500 | 96,080 | 8,590 | | 120,000 |
| CPR/79/024/B/01/40<br>Export Marketing | | 59,084 | 32,000 | 91,084 | 10,000 | | not costed. |

[illegible] China

As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/79/025/B/C1/12<br>Cotton Seed Cleaning | | 8,956 | 491,044 | 500,000 | | | 2,023,640 |
| CPR/79/026/C/01/99<br>International Centre | | 547,496 | 282,504 | 830,000 | | | 4,100,000 |
| CPR/79/028/B/01/40<br>Trade Consultation | 9,484 | 74,689 | | 84,173 | | | 5,000 |
| CPR/79/029/B/01/40<br>Export Packaging | | 51,081 | | 51,081 | | | not costed |
| CPR/80/001/B/01/99<br>Port Administration | | 24,825 | | 24,825 | | | na |
| CPR/80/002/B/01/40<br>Export Packaging | | | 172,400 | 172,400 | 147,100 | 80,500 | 80,000 |
| CPR/80/003/C/01/12<br>Agricultrual Universities | | 20,229 | 499,771 | 520,000 | 280,000 | | 4,104,990 |
| CPR/80/004/C/01/14<br>Primary Health Care | | 9,630 | 165,774 | 175,404 | 24,596 | | 4,200,000 |
| CPR/80/005/E/01/37<br>Synthetic Fibre | | 1,270 | 511,640 | 512,910 | | | 1,400,000 |
| CPR/80/006/B/01/37<br>Plastic Technology | | | 254,620 | 254,620 | 200,280 | | 3,434,000 |
| CPR/80/007/C/01/37<br>Leather Technology | | | 184,000 | 184,000 | 66,000 | | 400,200 |
| CPR/80/008/D/01/37<br>Organic Geo-Chemistry | | | 79,600 | 79,600 | 85,050 | | 2,860,000 |

FIELD LEDGER (IPF)

People's Republic of China

As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in Kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/80/009/D/01/37<br>Chemical Laboratory | | | 335,400 | 335,400 | 74,600 | | 2,192,000 |
| CPR/80/010/B/01/37<br>Building Materials Production | | | 300,000 | 300,000 | | | 5,523,190 |
| CPR/80/011/C/01/37<br>Extractive Metallurgy | | 153,471 | 172,429 | 325,900 | | | 1,400,000 |
| CPR/80/012/A/01/37<br>Management Training Centre | | | 98,500 | 98,500 | 121,500 | | 143,000 |
| CPR/80/013/C/01/31<br>TOKTEN | | 43,098 | 116,902 | 160,000 | | | not costed |
| CPR/80/014/B/01/12<br>Tropical Crops | | | | | 500,000 | | 2,224,000 |
| CPR/80/015/B/01/12<br>Fish Preservation | | | 300,000 | 300,000 | | | 827,000 |
| CPR/80/016/E/01/12<br>Timber Utilization | | 34 | 382,000 | 382,034 | 112,966 | 5,000 | 1,360,000 |
| CPR/80/017/A/01/37<br>Farm Machinery | | | 481,000 | 481,000 | 219,000 | | 4,450,000 |
| CPR/80/018/B/01/16<br>Hydrological Data Centre | | 5,871 | 203,200 | 209,071 | 41,000 | | 436,350 |
| CPR/80/019/B/01/16<br>Flood Forecasting | | | 274,500 | 274,500 | 25,500 | | 4,700,000 |
| CPR/80/020/C/01/12<br>Land Resources | | 50,291 | 149,709 | 200,000 | | | 200,000 |

People's Republic of China
As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/80/021/A/01/12<br>Oil Seed Production | | | 130,000 | 130,000 | | | 648,960 |
| CPR/80/022/A/01/12<br>Meat Freezing | | | 110,000 | 110,000 | | | 676,240 |
| CPR/80/023/B/01/12<br>Vegetable Centre | | | 250 000 | 250,000 | | | 1,542,000 |
| CPR/80/024/B/01/20<br>Strengthening Telecommunications | | | 403,700 | 403,700 | 13,600 | | 2,138,840 |
| CPR/80/025/A/01/40<br>Commodity Inspection | | | 150,000 | 150,000 | | | 15,000 |
| CPR/80/026/A/01/02<br>Legal Affairs | | | 60,000 | 60,000 | | | 60,000 |
| CPR/80/027/C/01/13<br>Pilot Centre for Secondary Education | | | 203,010 | 203,010 | 16,990 | | 4,334,000 |
| CPR/80/028/F/01/01<br>International Economy Institute | | 7,615 | 299,750 | 307,365 | 96,580 | | 4,480,900 |
| CPR/80/029/B/01/40<br>International Trade Research | | 49,666 | 100,334 | 150,000 | | | 1,005,300 |
| CPR/80/030/D/01/14<br>Biomedical Information | | 5,033 | 136,967 | 142,000 | 58,000 | | 516,000 |
| CPR/80/031/C/01/14<br>Traditional Medicine | | | 208,000 | 208,000 | 103,000 | | 4,387,200 |
| CPR/80/032/E/01/14<br>Drug Standardization | | 19 | 151,178 | 151,197 | 30,981 | | 3,960,000 |

FIELD LEDGER (IPF)

People's Republic of China
As of 31 Jan. 1982

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| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/80/033/D/01/14<br>Food Hygiene | | 5 | 156,445 | 156,450 | 25,000 | | 3,500,000 |
| CPR/80/034/C/01/14<br>Clinical Diagnosis | | | 106,000 | 106,000 | 94,000 | | 3,000,000 |
| CPR/80/035/D/01/01<br>Solar Energy | | 1,889 | 202,600 | 204,489 | 145,511 | | 3,778,354 |
| CPR/80/036/F/01/13<br>Scientific Projects | | 28,000 | 48,512 | 76,512 | 532,250 | 155,400 | 2,067,960 |
| CPR/80/037/E/01/13<br>Organic Geo-Chemistry | | 43,645 | 77,355 | 121,000 | | | 631,400 |
| CPR/80/038/E/01/14<br>Pollution Measurement | | 57,023 | 19,477 | 76,500 | 240,500 | | 2,500,000 |
| CPR/80/039/C/01/14<br>Pollution Control | | 4 | 271,996 | 272,000 | 28,000 | | 2,260,000 |
| CPR/80/040/C/01/13<br>Earthquake Prediction | | | 761,300 | 761,300 | 219,500 | 23,300 | 3,420,840 |
| CPR/80/041/F/01/13<br>Universities Improvement | | 21,323 | 706,577 | 727,900 | 72,100 | | 30,926,000 |
| CPR/80/042/C/01/99<br>Second Foreign Languages Institute | | 103,278 | 362,963 | 466,241 | 68,130 | | 5,390,000 |
| CPR/80/043/C/01/13<br>Printing Technique | | 56,100 | 50,050 | 106,150 | 145,500 | | 3,617,300 |
| CPR/80/044/C/01/13<br>Film Laboratory | | 246,245 | 14,000 | 260,245 | | | 229,260 |

[illegible]

People's Republic of China

As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/80/045/B/01/37 Aluminium Window/Door Frames | | | 63,000 | 63,000 | 515,300 | 21,700 | 2,446,675 |
| CPR/80/046/D/01/01 Geological Laboratory | | | 406,158 | 406,158 | | | 105,000 |
| CPR/80/047/C/01/37 Bauxite Aluminum Research | | 232,661 | 267,339 | 500,000 | | | 4,000,000 |
| CPR/80/048/E/01/37 Coal Liquefaction | | 320,074 | 379,926 | 700,000 | | | 11,744,000 |
| CPR/80/049/D/01/01 Drilling Techniques | | 51,510 | 452,700 | 504,210 | | | 4,136,800 |
| CPR/80/050/A/01/37 Micro-Computer Development | | | 20,800 | 20,800 | 316,800 | 162,400 | 2,034,000 |
| CPR/80/051/A/01/14 Fossil Fuel Pollution Control | | | | | 205,000 | | 5,250,000 |
| CPR/80/052/D/01/37 No-Destructive Testing Centre | | | 153,000 | 153,000 | 97,000 | | 1,500,000 |
| CPR/80/053/B/01/37 Diamond Blank Manufacturing | | | 34,000 | 34,000 | | | 50,000 |
| CPR/80/054/B/01/37 Materials Science | | 100,362 | 114,838 | 215,200 | | | 5,350,000 |
| CPR/80/055/C/01/14 Urinary Surgery | | 103,738 | 69,000 | 172,738 | 11,000 | | 3,000.000 |
| CPR/80/056/A/01/12 Semen Freezing | | | 120,000 | 120,000 | | | 800,000 |

FIELD LEDGER (IPF)
People's Republic of China
As of 31 Jan. 1982

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| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|
| CPR/80/057/B/01/12<br>Olive Oil Extraction | | | 160,000 | 160,000 | | | 350,000 |
| CPR/80/059/A/01/40<br>Photo Service for Trade | | | 40,000 | 40,000 | | | 125,000 |
| CPR/80/060/B/01/37<br>Bearing Manufacture | | | 181,000 | 181,000 | 19,000 | | 1,000,000 |
| CPR/80/061/B/01/37<br>Dye-Stuffs Laboratory | | | 300,000 | 300,000 | | | 3,440,000 |
| CPR/80/062/C/01/01<br>Quick Analysis of Geological Samples | | | 145,070 | 145,070 | | | 210,000 |
| CPR/80/063/D/01/01<br>Oil-Well Deviation Logging | | 40,969 | 53,919 | 94,888 | | | 140,000 |
| CPR/80/064/A/01/37<br>Quartz-Spring Gravimetre | | | 30,000 | 30,000 | | | 11,500 |
| CPR/80/065/C/01/01<br>Geothermal Research | | | 246,728 | 246,728 | 125,917 | | 1,440,000 |
| CPR/80/066/B/01/12<br>Agriculture Remote Sensing | | | 469,000 | 469,000 | 181,000 | | 2,500,000 |
| CPR/80/067/C/01/40<br>Shipping Data Processing | | | 12,500 | 12,500 | 237,500 | | 3,907,200 |
| CPR/80/068/C/01/01<br>Coastal Engineering | | | 50,370 | 50,370 | 155,630 | | 6,950,000 |
| CPR/80/072/C/01/14<br>Research in Oral Health | | | 143,400 | 143,400 | 16,600 | | 2,000,000 |

People's Republic of China
As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1979 - 1981 | 1982 | 1983 | | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|---|
| CPR/80/071/B/01/37<br>Agricultural Machinery TCDC Meeting | | 169,563 | (99,563) | 70,000 | | | | 108,000 |
| CPR/80/072/B/01/42<br>Loan Preparations | | | 600,000 | 600,000 | | | | 220,500 |
| CPR/80/074/B/01/31<br>MERFC Agencies' | | 30,407 | | 30,407 | | | | na |
| CPR/80/075/A/01/99<br>TCDC Umbrella | | | | | 100,000 | | | most costed. |
| CPR/80/077/B/01/37<br>Electro-static Duster Testing | | | 32,000 | 32,000 | 218,000 | | | 1,350,000 |
| CPR/81/001/B/01/12<br>Sericulture Centre | | | 300,000 | 300,000 | | | | 2,000,000 |
| CPR/81/002/A/01/12<br>Integrated Rural Development | | | 50,000 | 50,000 | | | | 500,000 |
| CPR/81/003/B/01/12<br>Biogas Centre | | | 250,000 | 250,000 | | | | 4,825,000 |
| CPR/81/004/B/01/37<br>Mini-Hydropower | | | 150,000 | 150,000 | | | | 5,500,000 |
| CPR/81/006/B/01/32<br>Assistance Under UNV Programme | | | 10,609 | 10,609 | 129,596 | 127,941 | 11,854 | not costed. |
| CPR/81/009/B/01/99<br>English for Special Purposes Training Network | | | 97,000 | 97,000 | 89,250 | | | not costed. |
| CPR/81/010/B/01/13<br>Photographic Plates | | | | | 237,450 | 72,450 | | 5,000,000 |
| CPR/81/013/A/01/01<br>Petroleum | | | | | 35,000 | | | $s not costed yet (preparatory assistance). |
| CPR/81/015/A/01/015<br>Civil Aviation Professional Training | | | | | 422,000 | 440,000 | 918,000 | 2,002,107 |
| TOTAL: | 1,172,614 | 11,368,307 | 20,246,493 | 32,787,414 | 8,514,189 | 1,187,722 | 929,854 | 284,505,669 |

FUND LEDGER (IPF)
People's Republic of China
As of 31 Jan. 1982

| Project No. & Title | Expenditures 1979 | Expenditures 1980 | Planned 1981 | Total 1977 - 1981 | 1982 | 1983 | | Total Govt. Contribution in kind (RMB Yuan) |
|---|---|---|---|---|---|---|---|---|
| CPR/81/013/A/01/01 Petroleum | | | | | 35,000 | | | not costed yet (preparatory assistance). |
| CPR/81/015/A/01/015 Civil Aviation Professional Training | | | | | 422,000 | 440,000 | 918,000 | 2,002,107 |
| TOTAL: | 1,172,614 | 11,368,307 | 20,246,493 | 32,787,414 | 8,514,189 | 1,187,722 | 929,854 | 284,505,669 |

## UNDP FIELD DELIVERY

Chairman Kasten: Would you provide a list of UNDP field delivery by region in 1981, including a list of project expenditures in each region?

Mr. Newell: In 1981, UNDP main program field expenditures by region were as follows:

| | |
|---|---|
| Africa | $221.2 million |
| Asia and the Pacific | $190.1 " |
| Arab States | $ 86.2 " |
| Latin America/Carribbean | $ 85.2 " |
| Europe | $ 17.0 " |
| Regional Projects | $ 97.7 " |
| Interregional Projects | $ 9.6 " |
| Global Projects | $ 15.0 " |
| TOTAL | $722.0 million |

No list of project expenditures by region is available. However, the enclosed UNDP publication, "Compendium of Approved Projects," lists all approved UNDP projects which had not been completed as of June 30, 1981 by country.

(CLERK'S NOTE: Due to space requirements, the publication "Compendium of Approved Projects," will not be printed in this hearing volume. It will, however, be retained by the subcommittee for public reference.)

## PROGRAMS ADMINISTERED BY UNDP

Chairman Kasten: What other United Nations funds and programs are administered by the United Nations Development Program?

Mr. Newell: The special UN funds and programs administered by UNDP are:

Trust Fund for Assistance to Colonial Countries and Peoples
UN Capital Development Fund
UN Revolving Fund for Natural Resources Exploration
UN Trust Fund for Sudano-Sahelian Activities
UN Volunteers Program
Financing System for Science and Technology for Development (formerly the Interim Fund for Science and Technology for Development)
UN Special Fund for Land-Locked Developing Countries
UNDP Trust Fund for the Nationhood Program of the Fund for Namibia
Fund of the UN for the Development of West Irian
UN Trust Fund for Operational Program in Lesotho
UN Trust Fund for Operational (OPEX) Personnel in Swaziland
UNROB Residual Funds - Bangladesh
UN Korean Reconstruction Agency - Residual Assets
Trust Fund Program for the Republic of Zaire
Children's Famine Relief in Uganda (Trust Fund)
UNDP Trust Fund for Projects Financed by the Voluntary Fund for the UN Decade for Women

## UNDP SPECIAL PROGRAM ACTIVITY

Chairman Kasten: For the record, please list the size of current programs being executed by them and provide a complete list of contributions received by these programs in calendar years 1981 and 1982.

Mr. Newell: According to the Annual Report of the UNDP Administrator for 1981 (DP/1982/6/Add.1/Annex), the following contributions were made to the major funds administered by UNDP in 1981 and 1982:

| | ($ millions) | |
|---|---|---|
| | 1981 | 1982 |
| UN Capital Development Fund | 31.0 | 24.8 |
| UN Volunteers | 1.2 | 0.5 |
| UN Revolving Fund for Natural Resources Exploration | 2.1 | 0.02 |
| Interim Fund for Science and Technology for Development | 5.1 | 2.0 |
| Special Fund for Land-locked Developing Countries | 0.07 | 0.07 |
| Energy Account | 2.8 | 1.0 |

No other contributions to funds administered by UNDP were reported.

## UNDP - ANNUAL PERCENTAGE CHANGE IN VOLUNTARY CONTRIBUTIONS

Chairman Kasten: Please provide a chart illustrating the annual percentage change in voluntary contributions from major donors to UNDP from 1976 to 1982.

Mr. Newell: Following is a chart illustrating the average annual percentage increase in contributions to UNDP, from 1976 to 1982:

| Country | Percentage |
|---|---|
| United States | 4.2 |
| Netherlands | 4.3 |
| Sweden | 4.3 |
| Norway | 16.8 |
| Japan | 17.0 (estimated) |
| Germany, Federal Republic of | 8.4 |
| Denmark | 2.8 |
| Canada | 7.0 |
| United Kingdom | 2.9 |
| France | 20.4 |
| Italy | 37.6 |
| Switzerland | 14.3 |
| Belgium | 8.2 (estimated) |

## MAJOR DONORS'CONTRIBUTIONS TO UNDP, 1976-1982

Chairman Kasten: Please provide a complete list of those same countries' annual contribution to UNDP from 1976 to 1982:

Mr. Newell:

### MAJOR DONORS' CONTRIBUTIONS TO UNDP
### BETWEEN 1976 AND 1982
(in million dollars)

| YEAR | DONOR | CONTRIBUTION |
|---|---|---|
| 1976 | United States | $100.0 |
| | Netherlands | 52.3 |
| | Sweden | 50.7 |
| | Norway | 21.3 |
| | Japan | 20.0 |
| | Germany, Federal Republic of | 30.5 |
| | Denmark | 39.1 |
| | Canada | 28.8 |
| | United Kingdom | 29.2 |
| | France | 10.0 |
| | Italy | 4.1 |
| | Switzerland | 7.9 |
| | Belgium | 9.1 |
| 1977 | United States | 100.0 |
| | Netherlands | 56.7 |
| | Sweden | 57.6 |
| | Norway | 28.3 |
| | Japan | 22.0 |
| | Germany, Federal Republic of | 39.2 |
| | Denmark | 45.3 |
| | Canada | 32.4 |
| | United Kingdom | 34.4 |
| | France | 10.0 |
| | Italy | 4.2 |
| | Switzerland | 9.1 |
| | Belgium | 12.8 |
| 1978 | United States | 115.0 |
| | Netherlands | 61.8 |
| | Sweden | 61.1 |
| | Norway | 34.2 |
| | Japan | 25.0 |
| | Germany, Federal Republic of | 49.8 |
| | Denmark | 43.1 |
| | Canada | 34.6 |
| | United Kingdom | 47.6 |
| | France | 14.0 |
| | Italy | 5.3 |
| | Switzerland | 10.4 |
| | Belgium | 15.4 |
| 1979 | United States | 126.0 |
| | Netherlands | 73.5 |
| | Sweden | 70.3 |
| | Norway | 41.1 |
| | Japan | 35.0 |

| YEAR | DONOR | CONTRIBUTION |
|---|---|---|
| | Germany, Federal Republic of | 58.8 |
| | Denmark | 62.6 |
| | Canada | 35.1 |
| | United Kingdom | 58.1 |
| | France | 16.0 |
| | Italy | 5.4 |
| | Switzerland | 14.2 |
| | Belgium | 16.5 |
| 1980 | United States | 126.0 |
| | Netherlands | 78.5 |
| | Sweden | 76.5 |
| | Norway | 48.0 |
| | Japan | 41.0 |
| | Germany, Federal Republic of | 61.9 |
| | Denmark | 58.6 |
| | Canada | 35.2 |
| | United Kingdom | 34.9 |
| | France | 25.1 |
| | Italy | 13.7 |
| | Switzerland | 16.6 |
| | Belgium | 16.2 |
| 1981 | United States | 125.8 |
| | Netherlands | 63.9 |
| | Sweden | 62.6 |
| | Norway | 48.8 |
| | Japan | 45.9 |
| | Germany, Federal Republic of | 47.6 |
| | Denmark | 47.1 |
| | Canada | 37.7 |
| | United Kingdom | 34.2 |
| | France | 23.7 |
| | Italy | 16.9 |
| | Switzerland | 15.3 |
| | Belgium | 14.9 |
| 1982 | United States | 128.2 |
| | Netherlands | 67.3 |
| | Sweden | 65.4 |
| | Norway | 54.1 |
| | Japan | 51.4 |
| | Germany, Federal Republic of | 49.6 |
| | Denmark | 46.2 |
| | Canada | 43.2 |
| | United Kingdom | 34.6 |
| | France | 30.4 |
| | Italy | 27.7 |
| | Switzerland | 17.7 |
| | Belgium | (Not pledged as of June 1, 1982) |

## UNDP EXPENDITURES AND AMERICAN STAFF

Chairman Kasten: In addition, provide for the record a chart listing UNDP expenditures on field programs for 1976 to 1982, and a listing of the number of professional staff serving with UNDP from 1976 to 1982, including the number of Americans for each year.

Mr. Newell: The information requested is as follows:

UNDP EXPENDITURES ON FIELD PROGRAMS
($ millions)

| | |
|---|---|
| 1976 | 393.9 |
| 1977 | 332.1 |
| 1978 | 429.2 |
| 1979 | 542.9 |
| 1980 | 669.8 |
| 1981 | 721.8 |

UNDP PROFESSIONAL STAFF
(as of December 31 of the year in question)

| | Headquarters | | Field | |
|---|---|---|---|---|
| | Total | U.S. | Total | U.S. |
| 1976 | 228 | 53 | 337 | 47 |
| 1977 | 211 | 46 | 326 | 47 |
| 1978 | 230 | 48 | 324 | 39 |
| 1979 | 253 | 55 | 344 | 41 |
| 1980 | 257 | 57 | 322 | 31 |
| 1981 | 263 | 59 | 354 | 42 |

Figures for 1982 are not yet available.

## UN INTERIM FUND

Chairman Kasten: What is UNDP's role for the UN Interim Fund for Science and Technology?

Mr. Newell: The Interim Fund, under the Administrator of UNDP and the Governing Council, utilized oversight, administrative, and financial services provided by UNDP headquarters, and relied on the field networks of UNDP for its project operations. Within its two years of operations, and despite financial constraints, the Interim Fund received and reviewed over 900 proposals and project concepts. Of these it was able to recommend 65 projects costing over $35 million for approval by the Administrator. The Interim Fund was terminated on January 1, 1982, and the general operational provisions of the Interim Fund, including its resources, organization and management, were transferred to the Financing System for Science and Technology for Development. While the final structure of the new Financing System is still under consideration, the System is continuing to use the services of UNDP during this transitional period.

## UNDP FELLOWSHIPS

Chairman Kasten: How many fellowships were awarded for training in the United States under UNDP financing?

Mr. Newell: In 1981 UNDP financed 1,775 fellowships for training in the United States. This amounted to 15.5% of total fellowships awarded in 1981, and an increase of 11% over the number of fellowships awarded for training in the United States in 1980.

Chairman Kasten: Please compare this with the four major countries training UNDP Fellows.

Mr. Newell: The United States is the most important training country for UNDP-funded Fellows, with 15.5% of total fellowships awarded to United States training institutions in 1981. The next most important training countries are Britain with 11% of total fellowships (1,259 Fellows in 1981), France with 8% (922 Fellows), and the Federal Republic of Germany with 5% (584 Fellows).

## AMERICANS IN UNDP

Chairman Kasten: What percent of the positions in the United Nations Development Program are held by Americans?

Mr. Newell: As of December 31, 1981, 17.6% of the 1063 staff positions within UNDP were held by Americans. U.S. citizens constituted 16.4% of the organization's professional staff and 19.3% of its other employees.

## NUMBERS OF U.S. CITIZENS SERVING AS UNDP RESIDENT REPRESENTATIVES

Chairman Kasten: As of February 1, 1982, there were only sixteen Americans serving as UNDP Resident Representatives in the more than 150 countries in which UNDP has such officials: why are so few Americans serving in these particular positions?

Mr. Newell: According to our June 1982 figures, there are 110 UNDP Resident Representatives, of whom eleven (10%) are U.S. nationals. There are also 100 Deputy Resident Representatives, of whom eleven (11%) are Americans, and 124 Assistant Resident Representatives, of whom eight (6%) are Americans. UNDP, as other UN agencies, attempts to secure the best available professional skills while at the same time drawing its staff from the widest practicable range of member states. Representation of U.S. nationals on the UNDP staff compares favorably with that of other major donors to the program. The U.S. percentages of Resident Representatives and Deputy Resident Representatives are greater than those of the next three largest donors, the Netherlands, Sweden, and Norway, combined. Their combined contributions in 1982, however, are significantly in excess to ours ($186.6 million to our $128.2 million).

Nevertheless, we intend to make strong efforts to improve U.S. representation on the staff of UNDP, as well as on the staffs of other UN organizations. Our efforts with regard to UNDP will focus particularly on the imbalance between U.S. representation in professional positions at headquarters (21%) and in the field (12.7%). We are also concerned about the low percentage of Americans at the Assistant Resident Representative level.

## UNDP FIELD OFFICES

Chairman Kasten: Is it correct that the United Nations Development Program field offices service the entire UN system?

Mr. Newell: Yes, the United Nations Development Program field offices do provide certain services to the entire UN system. In most countries, the UNDP Resident Representative has been designated by the UN Secretary General as Resident Coordinator for UN operational activities for development. In this role he or she is charged with coordinating the development efforts of the agencies of the UN family in the country to which he is accredited.

At its 29th Session in June 1982, the UNDP Governing Council adopted a decision authorizing UNDP to continue to provide the field services it now provides without charge to other UN bodies and recognizing that this action may have implications for the biennial budget which pays administrative and program support costs. Any requests for the provision of additional services are to be granted only after appropriate arrangements concerning funding have been made. We agree with the Council's determination that the provision of a limited amount of cost-free services to the specialized agencies which execute its programs is a legitimate cost of maintaining UNDP's role as the central funding and coordinating mechanism for technical assistance within the UN system.

## U.S. EFFORTS TO LIMIT TECHNICAL ASSISTANCE FUNDING FROM ASSESSED BUDGETS

Chairman Kasten: It is my understanding that Congress has long been concerned with the method of financing technical assistance. It is felt that such assistance should go through the United Nations Development Program, and not the assessed budgets of other UN agencies.

What has the Department done in the last year to limit assessed budget financing of technical assistance?

Mr. Newell: During this past year the United States has continued to actively seek to limit assessed budget financing of technical assistance in the UN System. During sessions of the United Nations General Assembly, the United States delegation has consistently indicated that assessed contributions should relate to the administration of the organization and to activities of common interest. Last year we again reiterated our position urging that assistance which benefits only some countires, desirable as it may be, should properly be funded through voluntary contributions.

Over the years the Geneva Group, western oriented countries who contribute one percent or more toward the budgets of the UN affiliated agencies, has generally agreed that most technical assistance activities should be funded through voluntary channels. It should be noted however, that some agencies have technical assistance provisions in their Charters. A prime example is the World Health Organization (WHO). WHO is unique in the UN system in that it designates a large proportion of its regular budget program activity as technical assistance or technical cooperation. This activity does not involve large amounts of resource transfers, as is some times suggested by the term "technical assistance," but rather cooperation with individual governments to achieve the control of disease and the promotion of specific measures to prevent ill health. Diseases which can spread across national borders, for example, cannot be controlled on a "global" basis but require specific approaches within the borders of each afflicted nation; although this effort may be considered technical assistance, the benefits gained from it are in fact of a global nature.

In May of this year, at the Administrative Council meeting of the International Telecommunication Union, the United States made a statement expressing its desire that technical assistance be funded entirely through voluntary contributions, i.e., no regular budget funds should be used for this purpose. The U.S. delegation to the International Maritime Organization (formerlly named the Intergovernmental Maritime Consultative Organizaion), made the same message to the IMO Governing Council in June of this year. During the International Atomic Energy Agency's last General Conference the U.S. successfully held off a major effort by the developing nations to transfer much of the safeguards program funding into technical assistance projects in the assessed budget.

## UNITED NATIONS CHILDREN'S FUND (UNICEF)

Chairman Kasten: It is my understanding that the UNICEF Executive Board has been expanded. Would you please explain the reasons for this expansion, the size of the expansion and who has been added?

Mr. Newell: The UNICEF Executive Board was expanded by the UN General Assembly on April 30, 1982, from 30 member nations to 41 nations. The UNICEF Executive Board was previously expanded at the 11th UN General Assembly in 1956. Since that time the tremendous expansion in the number of members of the United Nations has led to efforts to expand several subsidiary bodies to reflect the size of the UN itself. The developing countries initiated an effort to do so at the 1980 UNICEF Executive Board meeting. Difficulties developed in terms of the allocation of additional seats as well as the total number to be added. Not until April, 1982, did the UNICEF Board agree upon a formula which provides 10 additional seats divided among the five geographic regions plus 1 seat which will rotate every three to a different region.

The distribution of seats by geographic region is as follows:

| | |
|---|---|
| African states | 9 seats |
| Asian states | 9 seats |
| East European states | 4 seats |
| Latin American states | 6 seats |
| Western European and other states | 12 seats |
| To be rotated among regional groups in the following order: | |
| African, Latin American, Asian, Western European and other, and Eastern European | 1 seat |

UNITED NATIONS CHILDREN'S FUND (UNICEF)

Chairman Kasten: Last year the Committee, and to some extent the Administration, were severely critical of UNICEF because they were getting away from their traditional mandate of providing assistance to children and mothers. What progress has been made to get UNICEF back on the track?

Mr. Newell: Last year we were concerned about the possibility that UNICEF might be engaged in activities outside its mandate. Although we concluded that, in general, UNICEF was not seeking to broaden its mandate in any effort to include fields properly within the province of other UN agencies, there were some fringe programs proposed which led to a warning but the U.S. Representative to the UNICEF Secretariat at the 1981 Board meeting. We told the Executive Director that the United States expected UNICEF to adhere to approaches to the development and well-being of children which did not impringe upon the activities of other UN agencies, such as UNDP. We also expressed the need for the vast majority of UNICEF's programs to remain devoted, as in the past, to visible field operations benefitting children and mothers. In this regard, we received the support of other major donors on the Board who obviously shared our concern. We believe that UNICEF has been responsive to these sentiments. Just to be sure, we reiterated them at the May, 1982, Board meeting.

Chairman Kasten: Why is UNICEF becoming involved in discussions on disarmament? Isn't that the responsibility of other U.N. agencies? What has the Administration done to discourage such discussions within UNICEF?

Mr. Newell: The UNICEF Secretariat and many Board members would be very happy if the subject did not arise. However, at the 1981 meeting the USSR and other East European members of the Board proposed a disarmament message from the Board to be sent to the UN General Assembly's Second Special Session on Disarmament (SSOD). The United States Delegation, together with other Western European nations, successfully blocked the sending of any message. The United States took the position that the subject of disarmament was irrelevant to the work of UNICEF and that disarmament properly belonged to the political bodies of the UN.

At this spring's session of the Board we found that we would be unable to muster sufficient strength to block a message this year to the SSOD. We concentrated on obtaining acceptable language which would not go beyond the message sent in 1978 by the Board to the First Special Session on Disarmament. We were successful in (1) keeping the subject off the agenda; (2) avoiding wasting the time of the Board on the subject; and (3) obtaining language similar to or better than that which the Board sent in 1978 while shunting aside almost all the language proposed by the USSR.

Chairman Kasten: Is it true that "noted" or earmarked projects now exceed the value of those from general resources? Does the Administration feel this is a good practice?

Mr. Newell: The total cumulative value of general resources projects of UNICEF far exceeds those of "noted" projects. Some confusion may have arisen because the current Board recently approved "noted" projects over the next one to five years which exceeded in value those approved at the same meeting for financing from general resources. The sums in question were $227 million in commitments from general resources and $252 million from specific purpose funds for "noted" projects. The size of the latter was owing to an extraordinary pledge by Italy of $100 million over five years. However, program commitments over the period 1979 to 1981 came to $667 million from general resources and $253 million from supplementary funds. If one deducts the supplementary funds used for Kampuchean relief from the figure for supplementary funds, that total drops from $253 million to $145 million.

The Administration supports the view that contributions to UNICEF should largely be to general resources to maintain the universality of the organization. UNICEF estimates that about 83 percent of its income over the period 1982-1985 will be for general resources.

Chairman Kasten: Are any general resources funds used to pay for overhead costs of noted projects? If so, why?

Mr. Newell: Overhead costs of noted projects come largely from general resources. This has been the customary procedure over the past thirty-five years. Supplementary funds used for the "noted" projects are considered as income by UNICEF. They are used largely for extensions of UNICEF projects, rather than completely separate ones.

Chairman Kasten: Would the Administration support a limitation on U.S. contributions prohibiting their use for paying overhead of noted projects?

Mr. Newell: The Administration believes that it would be unwise and crippling to UNICEF to seek such a prohibition at this time. In any case, until the question has been thoroughly examined--and we expect the Executive Board to take up the subject at the May, 1983 meeting--we do not wish to prejudge the situation. The U.S. Delegation, and some other delegations, did question the practice at the May, 1982, session and we expect to pursue the subject. We believe that the Board should be given an opportunity to complete its study and consider the merits of the question.

Chairman Kasten: What has become of the proposal by UNICEF's management to construct a new headquarters building in New York?

Mr. Newell: At the May, 1981, session of the UNICEF Executive Board the Executive Director advanced the idea of spending up to $25 million to purchase a suitable building for UNICEF rather than continuing to lease space. The United States and other major donors vigorously opposed the proposal as untimely to say the least, and the proposal was dropped.

Chairman Kasten: Has UNICEF increased its staff in the last year? If so, by how many?

Mr. Newell: As part of the Biennial Budget for 1982-1983 the October, 1981, Special Session of the UNICEF Executive Board approved an increase of 30 authorized positions plus 2 temporary positions. This was against the original request to the May, 1981, Board for 384 positions. Total established posts in 1981 in all budgets of UNICEF came to 2,069; total actual staff against these posts came to 1,842 persons.

## SUBCOMMITTEE RECESS

Senator **Kasten**. Again, thank you. The subcommittee stands in recess until June 8.

[Whereupon, at 3:30 p.m., Thursday, May 27, the subcommittee was recessed, to reconvene June 8.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, JUNE 8, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 1:30 p.m. in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten; also present: Senator Jackson.

## CONGRESSIONAL AND NONDEPARTMENTAL WITNESSES

### HEARING PROCEDURE

Senator KASTEN. The subcommittee will come to order.

Today the Senate Foreign Operations Subcommittee will hear from congressional and public witnesses who have requested the opportunity to present their views on the fiscal year 1983 U.S. foreign assistance programs.

I would first of all like to welcome all of you here today and on behalf of the subcommittee express our appreciation for you taking the opportunity and the time to share your views with us.

Again this year there has been a gratifying turnout of witnesses. We will hear from 17 people today. However, we are also operating under time constraints, and, as a result, it will be necessary to limit testimony to 10 minutes per witness. So, we are going to ask that you summarize your statements, and it is important that you keep in mind that your statement will be inserted in the hearing record in its entirety.

We are also going to be using the light system to give each of you the same amount of time to speak. For those of you who have not used this system before, when the red light goes on in front of me you will know the 10 minutes have expired.

For those of you, also, who have not testified before, I want to assure you that the statement that you give, and also the prepared statement which will be inserted in the record, will be read carefully by those Senators unable to attend personally today, and that we will afford your views every possible consideration.

## PREPARED STATEMENT OF SENATOR D'AMATO

At this point, we will insert into the record the prepared statement of Senator D'Amato who was unable to attend the hearing due to a prior commitment.

[The statement follows:]

## PREPARED STATEMENT OF HON. ALFONSE D'AMATO

### U.S. SENATOR FROM NEW YORK

Secretary of State Alexander Haig has dispatched Special American Envoy Philip Habib to request that Mr. Begin immediately ceasefire and withdraw the Israeli army from the territory captured deep in Lebanon. The Israelis are presently knocking on Beirut's door; not only with artillery barrages on PLO officers but with the army smashing one PLO stronghold after another.

I would ask the Secretary of State what he wishes to offer Mr. Begin and the Israeli people in exchange for a retreat. The United States had previously orchestrated a ceasefire between the PLO and the Israelis in July of 1981. During that ceasefire, the PLO continued its attacks against Israel both at home and in Europe.

The PLO used the ceasefire, as they have used every ceasefire, to engage in a buildup of arms and ammunition. Within range of a significant portion of northern Israel, rockets and artillery of Soviet manufacture have been installed by the PLO. No longer is the PLO the hit and run terrorist group that it started as. The PLO has amassed hundreds of artillery pieces as well as several hundred rocket launchers in southern Lebanon. Modern Soviet tanks such as the T54/55 and the newer T62 have been employed.

Still, the United States has done little to either strengthen or support a real Lebanese government or eradicate the PLO forces from southern Lebanon. The military buildup, a sign of a profound change in the character of the PLO, is still only one side of the many problems facing the Israelis.

What government will sit by and watch its diplomats assaulted and murdered and its civilians attacked abroad by an organization that occupies land on its northern borders, and sit back and do nothing? The murder of Yaalov Barsimantov, an Israeli diplomat in Paris on April 3 of this year was just one sign of growing PLO boldness. On April 21, an Israeli soldier was killed by a mine planted by terrorists. On June 3, just a few days ago, a terrorist critically wounded Shlomo Argov, the Israeli ambassador to Britain.

The Israeli government states that there have been 130 guerrilla attacks of some sort inside Israel since the July 24, 1981 ceasefire on the northern border. Most recently the rocket attacks by Soviet-made Katyusha rocket launchers on Israeli settlements have made life unbearable.

I can think of no convincing argument either against an Israeli invasion or for a complete withdrawal. The need for a secure neutral zone cannot be denied. The United States had previously negotiated a ceasefire that produced an illusory peace. The military buildup in the ceasefire area convinced the Israeli government that if they wanted security they would have to seize it themselves.

We in the United States are largely at fault for the Israeli strikes. We relied on a United Nations peacekeeping force that was useless; a force too small to deter aggression and without the commitment to stop the PLO arms buildup. We allowed the Arab states in the region to finance arms sales to the PLO while we in turn continued arms sales to nations such as Saudi Arabia and negotiated with the likes of Jordan.

No substantive progress has been made on the issue of the Palestinians themselves. Both Saudi Arabia and Jordan have consistently refused to participate in the process. A ceasefire resolution in the United Nations is a cruel joke. That same body uses every opportunity to attack the Israelis with empty rhetoric while tacitly supporting the violence and terrorism of the PLO.

Again, I would ask what the Secretary of State would offer the Israelis in exchange for those men and women killed because they believed in the State of Israel. A neutral zone must be established in the truest sense of the word neutral. The PLO must be eradicated from this area to ensure the security of Israel that the United States has pledged to maintain.

### INTRODUCTION OF SENATOR JACKSON

We are particularly privileged today to hear from the distinguished Senator from the State of Washington, the Hon. Henry M. Jackson.

Senator Jackson, it is a pleasure to welcome you here today, and we would ask that you would proceed.

## STATEMENT OF HON. HENRY M. JACKSON, U.S. SENATOR FROM WASHINGTON

### INTRODUCTION OF IAMAW REPRESENTATIVE

Senator JACKSON. Thank you, Mr. Chairman. I want to express my deep appreciation at the outset for arranging the public hearings to give intersted parties an opportunity to address this all-important problem.

I am privileged, also, to introduce and present to the committee Mr. Tom Baker. Mr. Baker is president of District Lodge No. 751—the largest district in the entire country—of the International Association of Machinist & Aerospace Workers.

Mr. Chairman, he is charged with protecting the contractual rights of over 32,000 Boeing workers employed in several plants in the Puget Sound region of western Washington. His district also represents several hundred workers at remote Boeing sites in Nevada, Louisiana, California, Montana, Oregon, and Utah—I regret there are none in Wisconsin at this point.

[Laughter.]

### REDUCTIONS IN EXPORT-IMPORT BANK PROGRAMS

Senator JACKSON. Mr. Chairman, the Export-Import Bank does not help big business alone. It is correct that the prime contractors for products sold abroad with Export-Import Bank assistance are large companies, but only a fraction of the numerous parts of these products are manufactured by the same large companies.

Mr. Chairman, I would point out that when Boeing puts together a commercial aircraft, 60 percent of that aircraft is put together by small subcontractors from virtually all 48 States in the Union—only 40 percent is produced in the State of Washington.

The work, as I have indicated, is performed by thousands of subcontractors and suppliers. So, the true victims of major cuts in the Export-Import Bank's operation are American workers and American business. For that reason this Nation needs a strong Export-Import Bank.

As you know, the administration has recommended sharp reductions in the lending authority of the Bank. Their figures reflect a 13-percent reduction in funding from last year. Now, I am concerned about these reductions in the Bank's authority.

May I say, why reduce a program that produces one of every seven jobs in this country when the unemployment rate is 9.5 percent? Why reduce a program that increases exports when every $1 billion in exports creates 30,000 jobs and additional revenue?

I would point out that 60 percent of all the Boeing commercial planes are sold abroad currently—it has been as high as 70 percent.

So, all of this is in the best interest of American workers to fully participate in the world markets. The markets are large, the producers know how to make the best products, and the Export-Import Bank has a role to play.

Therefore, Mr. Chairman, it is a privilege for me if I may present Mr. Tom Baker to speak on the impact of the Export-Import Bank on American workers.

Senator KASTEN. Senator Jackson, thank you very much. I think a number of us had an opportunity over the weekend to read an article—I believe it was in the New York Times—about the future of the American aerospace industry and for Boeing in particular. It was shocking to see the numbers in those charts, the air bus, and how they have been increasing.

I want to thank you for your help and support of American industry, and we are very anxious to listen to Mr. Thomas F. Baker. Mr. Baker?

Senator JACKSON. I regret that I have to go on to another meeting, and Mr. Baker understands.

Senator KASTEN. Fine.

Senator JACKSON. I want to again thank the Chair for his generosity in making the time available here for these witnesses.

Senator KASTEN. We thank you for joining us, Senator. Mr. Baker?

## INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

## STATEMENT OF THOMAS F. BAKER, DISTRICT PRESIDENT, AEROSPACE INDUSTRIAL DISTRICT LODGE 751

### EFFECT ON UNITED STATES FROM FOREIGN MARKETS

Mr. BAKER. Thank you, Mr. Chairman. I have an oral presentation I would like to make to the subcommittee, and I have also submitted a text for the record of the meeting.

Senator KASTEN. Your prepared statement will be made a part of the record; please proceed with your oral testimony.

Mr. BAKER. Mr. Chairman, I appreciate the opportunity to bring to the distinguished members of this subcommittee a message from over 30,000 members of the International Association of Machinists, District Lodge 751, in Seattle.

I have a grave concern for the future of our industry. The skilled workers who have helped make it a symbol of national pride, and the apparent lack of appreciation of the significance our industry represents to this Nation.

There is widespread understanding among the Members of Congress of the impact foreign-made imports have had upon the American industry and its workers in steel, automotive, shipbuilding, consumer electronics, and wood products.

Foreign manufacturers have invaded the U.S. marketplace in droves. Our Nation's trade deficit reflects 6 straight years of this invasion. Every indication is that more foreign competition is on its way. Ours is the largest and most open marketplace in the world—a real live demonstration of a longstanding commitment to free market, a capitalistic enterprise system. But in world markets, non-U.S. markets, there is no free enterprise.

At a time when our economy is operating at less than 75 percent of its capacity and unemployment is at an all-time high, U.S. products are being priced out of the world market by artificially high exchange rates, plus government-subsidized production and export financing by Japan and Europeans.

That means American jobs are being given away to those countries who have a commitment to creating jobs with tax dollars. I am not suggesting that this is improper, illegal, or immoral. I am suggesting, however, that unless Congress takes the opportunity it had the foresight to create 48 years ago, the deterioration of our commercial aircraft and other manufacturing industries will accelerate.

### SUPPORT OF EXIMBANK

The opportunity that I am referring to, which promotes export of U.S.-manufactured products and American jobs, is the Export-Import Bank. Congress created the Eximbank. Congress has supported the Eximbank, and Congress has directed that Bank to provide competitive financing terms to buyers of U.S. exports.

The U.S. Export-Import Bank is unique in that it does not use taxpayer receipts in its activity. The Bank borrows funds from the economy at large and lends them to foreign buyers of U.S. products under terms provided by multinational agreement. Some of those nations are not respecting that agreement, so much so that subsidized export financing was a major concern of President Reagan at last weekend's Versailles meeting in Europe.

My business, of course, is to represent some 30,000 union workers at Boeing to make sure that they are properly compensated for their high skills. But it goes beyond that. Our union cannot negotiate compensation for a job if the job does not exist. So, we are deeply committed to not only maintaining but creating jobs.

Again, that is why I am here and why I am grateful to be invited to speak to you. I want to help you help create jobs. And one of the best ways to do it at this time is not only to support, but to strengthen the authority of the Eximbank to make loans.

The Eximbank is designed to provide a doorway through which American manufacturers can sell their goods to foreign customers. It is needed now more than ever because certain foreign governments are not only underwriting loans for their goods but are actually subsidizing the manufacture of these goods.

These governments are spending this money—often throwing good money after bad—not to make a short-term profit but with the ultimate aim of totally destroying certain American industries. When they get that accomplished, they will have the corner on essential industrial products.

### U.S. AEROSPACE INDUSTRY

They have now taken aim at the American aerospace industry. This is because ours is the finest of the aerospace technology. If they can destroy the American aerospace industry, even cripple it, they will have the advantage for the rest of this century and on into the next.

The American aerospace industry does not need and does not want subsidies or giveaways. But it needs and wants Exim. The Eximbank gives manufacturers with a superior product the chance to compete in financing. Exim needs more authority to write more loans to more foreign customers. This will create more jobs, strengthen more existing companies, and create new companies.

The world commercial jet airline market over the next 10 years is huge, $120 billion in today's prices. Industry observers allow that over 60 percent will be sold to non-U.S. airlines. Boeing is this Nation's No. 1 exporter. Well over half of the Boeing production is for export.

Now, please consider the effects of this beyond the walls of Boeing factory buildings. Roughly half of the ingredients of every Boeing aircraft are manufactured by some 4,000 small, medium, and large subcontractors in 46 States. Clearly, this industrial phenomenon cannot continue without the ability to create competitive loans for foreign customers. It cannot continue without Eximbank, the one institution currently able to perform this service.

I want to help clear up some misconceptions about Exim. Exim has been wrongfully called foreign aid—it is not. The money it lends never leaves the United States, it goes to American companies to pay American workers. It simply provides competitive financing which attracts foreign buyers. These buyers then buy up American products instead of those made in other countries.

Another misconception is that Exim is welfare for big companies. Be assured that if any Government agency is engaged in welfare for big corporations then we in the labor movement will be the first to blow the whistle. Exim does not give anything away, it writes loans and charges interest. Exim does not spend the Treasury's money, it makes a profit, and out of the profit it returns dividends to the Treasury.

In short form, over the past 10 years, this is what Exim has helped accomplish for this country. Just in the aerospace industry sales of commercial airplanes and their spare parts to foreign airlines amounted to more than $35 billion. They accounted for an annual average of 249,000 jobs. The tax revenue generated from the export came to more than $44 billion in the same 10 years.

How can Exim be considered anything other than productive in view of facts like this, and when we are touching only aerospace and not on the benefits of other industry which are also extensive?

## PROFIT HISTORY OF EXIMBANK

In its 47 years, Exim has made a profit of more than $3 billion. It might show a loss this year because the interest rates set by international agreements are lower than the cost of borrowing money in the commercial sector. But Exim's $2 billion reserve fund will more than cover this year's potential loss which could reach around $100 million. As interest rates in the private market drop, Exim will quickly return to its usual position of profit.

This international agreement on interest rates which I mentioned expires this fall. Without strong support for this, Eximbank, our negotiators, will not have the muscle they need to properly represent American interests and face a tough European subsidy.

Senator KASTEN. Mr. Baker, I would ask that you, if you could, summarize the last portion of yor statment, because it is important that we stay on schedule.

Mr. BAKER. All right.

Mr. Chairman, the alternative to the strong support of Eximbank is empty factories, destitute State and local government, and a massive army of unemployment.

I urge the committee, the Congress, to sustain, invigorate, and expand the power of Eximbank as a partner of American manufacturing's competition in the free market. If you do not, jobs will be lost—well, that is not quite accurate. The jobs will not actually be lost, the jobs will be moved from such places as Seattle, Oklahoma City, Wichita, Cleveland, to places like Paris and Tokyo.

Thank you, Mr. Chairman.

[The prepared statement of Thomas F. Baker follows:]

# PREPARED STATEMENT OF THOMAS F. BAKER
DISTRICT PRESIDENT

## AEROSPACE INDUSTRIAL DISTRICT LODGE 751

## THE EXPORT-IMPORT BANK:

### UNILATERAL ECONOMIC DISARMAMENT IS FATAL

The United States has the ability to defend itself against any threat which any number of powers might choose to launch, be it military or economic -- the two most likely. But we will not be able to defend ourselves during a period of exceptional circumstances, that is a crisis, if we have unilaterally disarmed either militarily or economically.

We will not be able to recover from another Pearl Harbor, military or economic, unless we anticipate the attack. In this fast-moving age--the Jet Age--there won't be enough time to recover.

I'm sure you will agree the function of government is to help the nation prepare for a possible crisis. We are now in a period of exceptional economic circumstances. We are under attack against several American industries by members of the European Economic Community and by Asian countries. We have experienced assault and losses in several manufacturing enterprises, most notably autos, ships, steel, lumber products and consumer electronics. At the same time, we are exhibiting a tendency toward unilateral economic disarmament.

As each month goes by, a larger percentage of our work force finds itself engaged in service industries rather than in manufacturing, if they can find jobs at all. This is dangerous. Nations who are not industrial, who do not make things, become dependent upon, even hostage to, those who do make things. If the trend keeps up, we will become a weak service economy whose major purpose will be nothing more than to provide retail outlets for other manufacturing nations. The day will arrive when we will have nothing to sell but other countries' products. And we will be able to sell nothing to them unless they consent to buy some of our raw materials such as our wheat and potatoes and raw lumber. When a nation reaches that point it becomes nothing more than an economic colony to industrial powers.

It is the job of government to provide the help, the preparation, to avoid disaster in periods of exceptional circumstances. Other governments realize this. Other governments realize that a cooperative effort between government and industry (and also labor) improves an economy. Such cooperation -- government working hand in hand with industry -- has made Japan a dominant force in such enterprises as steel, consumer electronics, and automobiles, to mention a few.

They began this over 30 years ago. Their leaders decided to develop these industries to a world-class level by doing the following:

1. Insuring that only Japanese-made products in these lines be made available to Japanese consumers. To this end, the Japanese government provided the needed legislation and regulation.

2. By accumulating capital through sales in the protected domestic markets, and...

3. By using the accumulated capital to penetrate foreign markets, with the number-one target being the United States.

It has also been learned that Germany did the same thing for the growth and protection of its chemical, auto and machine tool industries.

The point is that these nations have been successful in proving that free enterprise can be eminently more successful when governments help than when there exists only a hands-off, 19th Century laissez faire, let-the-chips-fall-where-they-may attitude.

We are now facing a threat to the industry in which the United States is number one. It is the industry that accounts for more dollars in exports than any other. It is an industry of incredibly high technology employing hundreds of thousands of Americans, and generating billions of dollars in foreign exchange, domestic commerce and taxes on every level of government. It is the aerospace industry. And by the aerospace industry, I mean the most important aspect of the aerospace industry--the manufacture and sales of commercial passenger and cargo jets to foreign airlines. That's where the money is, that's where the jobs are, that's where the future is.

I have worked in the aerospace industry most of my adult life. I now speak for the industry and for the men and women who work in it. The American aerospace industry is the world leader because of the skill and the dedication of the people in management and on the production lines, and their ability to work together. We have been able to do this better and with more harmony than perhaps any other industry. In other words, this industry has been so highly successful because of the attitude and team spirit between management and labor.

So, what we are talking about here is people-and their jobs. We are not just talking about Boeing, or Boeing jobs in Seattle or Wichita. We are talking about all American aerospace companies, and we are talking about thousands of sub-contractors throughout the country.

In general terms, only about half of a Boeing jet is actually made in Boeing plants by the members of my union. The other half of the components are made in 46 of 50 states. They are made by some four thousand small and medium-sized companies employing tens of thousands of workers.

Affected just by Boeing are companies and workers in every corner of the United States. Let's look at dollars generated in states other than Washington or Kansas by Boeing sub-contracts. In 1980 it amounted to the following in what might not seem to be aerospace states: Oklahoma, over 196 million dollars; North Dakota, over 32 million; Michigan, over 74 million; Illinois, over 164 million; North Carolina, over 51 million; Tennessee, over 104 million, Utah, over 31 million; Arizona, over 88 million; and Nebraska 11, Minnesota 29, Colorado 9, Florida 33, and Ohio 986 million.

Ten states did 100 million or more sub-contracting just for Boeing. Thirteen did between 10 and 100 million, just for Boeing.

One of the major focal points of today's exceptional economic circumstances is the Export-Import Bank. It must have its loan authority strengthened. The people who are running Exim must be convinced that their job is to write loans at competitive rates for foreign sales of American manufactured goods, instead of thinking up lame reasons to deny loans. The person appointed by President Reagan to run Exim seems to think that Exim should be mothballed, if not eliminated. His reasoning is the old "free market" theory. The only trouble with that is that the competition is not playing the free-market game. The governments of France, Germany and other participants in Airbus Industrie are subsidizing the production of the Airbus, and underwriting the financing of Airbus purchases. Without continued Exim financing of American sales to foreign customers, the subsidized competition will bury us.

Opponents of Exim say that it is welfare for big companies. This is nonsense. You can believe that any time there is an excess of any kind of government largesse for big companies, I and others in the labor movement will be the first to point it out to you. Exim loans protect hundreds of thousands of jobs. And Exim does not spend the Treasury's money. Exim makes a profit, and the profit returns dividends to the Federal Treasury.

It is understood that Exim is about to show a loss in its transactions for the first time. This is the exception to the rule. This is because of the current exceptional circumstances in the economy. It is a period of emergency. In such periods it is not well to cut back on something like Exim simply because of a short-term view, simply because of temporary panic. Exim has reserves. The purpose of reserves is to get an enterprise through a period of exceptional circumstances. If you strengthen Exim when it is needed, then you will stimulate sales of American manufactured goods to foreign customers, including aerospace products, and thereby survive the exceptional circumstances.

Neither the Chairman of Boeing nor I asks our government to give us anything. We are asking for support. We are asking for an Exim bank that can help us compete against government largesse in other countries, where they are willing to actually spend tax revenue, even take a loss over a period of several years, simply to destroy the American aerospace industry.

Both the executives who manage American aerospace companies and the people who work in their factories believe in free enterprise. One of the most visible champions of free enterprise has been the American labor movement. If that were not true, then it is quite possible that American free enterprise might not have survived the Great Depression before succumbing to collectivization, nationalization, and all other absurdities of reaction from the economic and political left.

We ask you to strengthen Exim to protect American manufacturing and American jobs--not to provide them welfare. We ask for a viable, profit making bank. We ask for the machinery to keep American industry competitive in world markets. We are asking you to announce to the world that cooperation between government, industry, and labor can beat any foreign system that relies on mass spending at any cost just to beat us. We are not asking to be given anything. We are asking for cooperation.

Such cooperation has been done before. But not lately. Lately it seems that government and industry have been trying to do the same thing in different directions and without coordinating and cooperating with each other. That won't work in this day and age.

The most recent example of such cooperation was in World War Two. When we became embroiled in that war, it was soon realized that the strictly free-enterprise notion of just letting everyone do his own thing would not get the job done. It would not get the needed amount of ships, tanks, trucks, food, clothing or ammo produced in time, and it would not get those things to the right place at the right time.

So we created the War Production Board. It was made up of equal representation from government, industry and labor. It made the United States the most awesome producer in the history of Man. It is hailed as a monumental success story.

The lesson there was cooperation. Government cooperation and participation by way of the War Production Board, to put it in plain language, won the war.

And that lesson of cooperation is appropriate today. The cooperation of government in building and maintaining the Exim Bank is essential. It must be done, or government-subsidized industries overseas will put us out of business.

We in industry and in labor do not want you to think that its necessarily true that the Exim should go on forever. It is quite likely that after the exceptional circumstances of today's economy are overcome, that private banks, perhaps a group of private banks, can perform the same function that Exim does today.

But today, here and now we need Exim. We are confronted with exceptional circumstances in the form of all-out competition. That competition does not hold the view that it will compete over the long term. It holds the view that it must totally eliminate its competition over the long term.

That is what we are facing. The key to meeting that challenge to the foreign sales of American manufactured goods for the present is the Exim Bank. That is the here and now of it. Each of us believes in the free market. But the competition doesn't. In any event, the free market will not take care of itself without help, without cooperation. Exceptional circumstances require exceptional solutions and exceptional cooperation. You have the opportunity to do something exceptional through Exim.

If you don't, jobs will be lost. That's not quite accurate. Jobs won't actually be lost, they will simply be moved from Seattle and Cleveland and Oklahoma City and Wichita to places like Paris and Tokyo.

### THREAT FROM PREDATORY FINANCING

Senator KASTEN. Mr. Baker, thank you very much for your testimony. I think it is clear to all Members of Congress right now, the tremendous dangers that we have and the threats that we have from imports. It seems to many of us that we are not looking for subsidies, and we are not looking for anything except for free trade.

Unfortunately, we have to match the predatory financing of others, and that is the job of the Eximbank. I also believe we are going to have to work with tariff and nontariff barriers in order to compete. We would prefer that the predatory financing on the part of others be eliminated. We would prefer that the tariff and nontariff barriers on the part of other countries be lowered. But in view of the fact that they seem unable or unwilling to do this, there is nothing left for America to do but to compete.

I believe we are seeing a growing consensus and a growing support of the basic idea that America can no longer be taken advantage of. The days of the Marshal plan and recovery for Europe and Japan are over, and we are going to go out and compete.

We thank you very much for your testimony.

Mr. BAKER. Thank you, Mr. Chairman.

Senator KASTEN. Father William George.

Father George, you are the special assistant for Federal relations, the Office of the President of Georgetown University. We are happy to have you with us today.

## GEORGETOWN UNIVERSITY

### STATEMENT OF WILLIAM L. GEORGE, S.J., SPECIAL ASSISTANT FOR FEDERAL RELATIONS, OFFICE OF THE PRESIDENT, GEORGETOWN UNIVERSITY

### ACCOMPANIED BY LINDA GRAY, ASSISTANT, IMMIGRATION POLICY CENTER

### PILOT PROJECTS FOR IMMIGRATION AND MIGRATION

Father GEORGE. Thank you, Mr. Chairman.

With me is Linda Gray, Father Bradley's assistant in our Immigration Policy Center. He happens to be in Colombia, South America right now. So, we decided it was cheaper to keep him there rather than fly him back and forth.

I would like to ask the committee to consider two innovative pilot projects dealing with immigration and migration. Each project would take approximately 2 years. One would involve research of the "Push Factor," the other resettlement. Each of it would cost, we estimate, over the 2 years about $1 million, and we would hope that they would be directly associated with the Organization of American States (OAS). The innovation deals mostly with using universities and nongovernmental resources within the countries in Latin America.

It grew out of a series of lectures we had at Georgetown on immigration policy in the United States, and it concluded that we were basically reacting to things that our policymaking over the years is sort of in piecemeal, crisis by crisis, and that we really needed to do something that had some implications and a long-term solution.

The countries in Latin America in particular, but all over the world, look at us as the magnet for the unfortunate of the world. We have many people coming. We believe that there should be a more careful and planned analysis of the Push Factor in immigration and migration.

Certain statistics throughout the world indicate that we are going to have a greater problem in the future, and the most rapid growth is in Latin America. That is why our emphasis is on Latin America.

For too long we feel that we have neglected some of our responsibilities in the Western Hemisphere, and we ought to alter our image as the "dominant big brother" and establish a framework of equal partnership, giving consideration to each other's needs and problems. This also means some of the costs ought to be shared, as well.

We would propose that the committee consider supporting the Organization of American States—working with the university in the District—to develop a pilot program to call upon the resources of a network of universities to study the demographic, economic, and political influences of the Push Factor in immigration.

A university in each country would be responsible for carrying out the research in that country according to a model which would be developed by the cooperating institution working under the aegis of the OAS. In each country those responsible for conduct of the research would also be expected to develop a liaison with policy makers and legislatures in their own country.

The ultimate of the 2-year project would be to disseminate the information, and one of the major benefits that I perceive would be to develop interrelated agreements with various countries based on their own understanding of their migration problems, and the recipient countries like us could benefit from that once the agreements came from within those Latin American countries, working together with a university up here.

## PILOT PROGRAM

The other thing, the pilot program, we would propose again working in tandem with the OAS through a network of universities. There could be a small resettlement program in various Latin American countries, and in particular we have the idea of Asians being settled in Latin America. We have what we hope to be a unique opportunity to develop a small model of that.

The program could include universities in Latin America working with the university here, and the university selected would use their own current community development programs to take advantage of the staff that is trained in social work, anthropology, social psychology on the implementation of the program—again, the uniqueness being university and nongovernmental, political networks.

I would like to ask you to encourage our State Department to look into this and to cooperate. And on behalf of Father Healy, our President, I would like to thank you for the opportunity to express our views and testify before you.

[The prepared statement of William L. George, S.J. follows:]

# PREPARED STATEMENT OF FATHER WILLIAM L. GEORGE, S.J.

## SPECIAL ASSISTANT TO THE PRESIDENT

## GEORGETOWN UNIVERSITY

Mr. Chairman and members of this Committee, I am Father William L. George, S.J., Special Assistant to the President of Georgetown University. With me is Father Harold Bradley, S.J., Director of the Center for Immigration Policy and Refugee Assistance.

In reflecting on more than 100 years of immigration history, we conclude that our country's immigration laws and policies have been developed in a haphazard, reactive fashion. As a result, we have often been forced to improvise responses, basing them on impressions or misconceptions. We have reacted to prejudice, to emotion, to international crises, to political and special interest pressures, to foreign policy concerns and even to media coverage of world-wide refugee problems. Our country has never attempted to objectively analyze and weigh the various factors that have traditionally influenced immigration policy making. We have never sought in a systematic fashion to balance foreign considerations against domestic considerations, humanitarian concerns against economic concerns, or special interests against our national interest.

This reactive approach is clearly demonstrated by our piecemeal responses to the problems of undocumented aliens, refugees and the recent migration of Cubans and Haitians.

The United States with its humanitarian history, democratic traditions, and relatively high standard of living is still regarded as the land of opportunity and freedom. It is only natural that it serves as a magnet for the more unfortunate peoples of the world. We believe that there should be a more careful and planned analysis of the push factor in migration. That is, the reasons why people leave the security of their home and family to suffer the anxieties of a migrant. Immigration legislation currently proposed attempts to deal with the pull factor which attracts those who have already decided to migrate to come to the United States.

Certain population statistics indicate what is in store for us if we continue to follow a reactive rather than a carefully planned approach to immigration. The population of the world has increased by 75% in the past thirty years, from 2.5 billion in 1950 to 4.4 billion in 1980. The developing countries grew much more, both in numbers and rates. Their population almost doubled, increasing from 1.7 billion to 3.3 billion.

The most rapid population increase was in Latin America, where the population grew from 164 million to 368 million during the same 30-year period. It is from Latin America that we can expect the greatest pressures to emigrate over the next decade. In 1959 19.8% of legal immigrants to the U.S. came from Latin America, by 1979 the percentage had increased to 38.6%.

In particular, it is estimated that Mexico, which already has a high proportion of young, working age males, will double its population by the year 2000. Currently, 31 million of Mexico's population of 68 million is under 15 years of age and 50% of its work force is either unemployed or underemployed. Because Mexico cannot create enough jobs to accomodate its citizens, we can expect the pressure for out migration to the United States to continue for years to come.

Although Europe, Asia, and Africa also produce large numbers of illegal immigrants, geographical proximity dictates that we pay special attention to immigration pressures in Western Hemisphere nations. In particular, we must intensify our efforts to create an atmosphere of solidarity in our own hemisphere, with special emphasis on our relationship with Mexico and the Caribbean countries.

For too long we have neglected our Western Hemisphere responsibility by espousing generous, but unfocused, programs of cooperation and assistance with few tangible results. We must seek to alter our image as the "dominant big brother of the North" and establish a framework of equal partnerships each giving consideration to the other's needs and problems.

We should initiate through the Organization of American States working with universities in the United States and other American nations a Western Hemisphere conference to examine in detail the question of hemispheric migration.

We propose that the Organization of American States working with a university in the District of Columbia develop a pilot program to call upon the resources of a network of universities to study the demographic, economic and political influences on the push factor in emigration. The university in each country would be responsible for carrying out the research in that country according to a model which would be developed by the cooperating institution working under the aegis of the Organization of American States. In each country those responsible for the conduct of the research would also be expected to develop a liaison with policy makers and legislators in their own country.

At the end of the two-year pilot project, the Organization of American States and the participating universities will organize regional conferences which will include policy makers, legislators, representatives of various interest groups and academics. The regional conferences will send representatives to a Western Hemisphere conference on migration which will propose a multilateral response to these problems.

We estimate that the proposed pilot program would cost $1,000,000 during a two-year period. During the first year it would cost $400,000 and $600,000 during the second year.

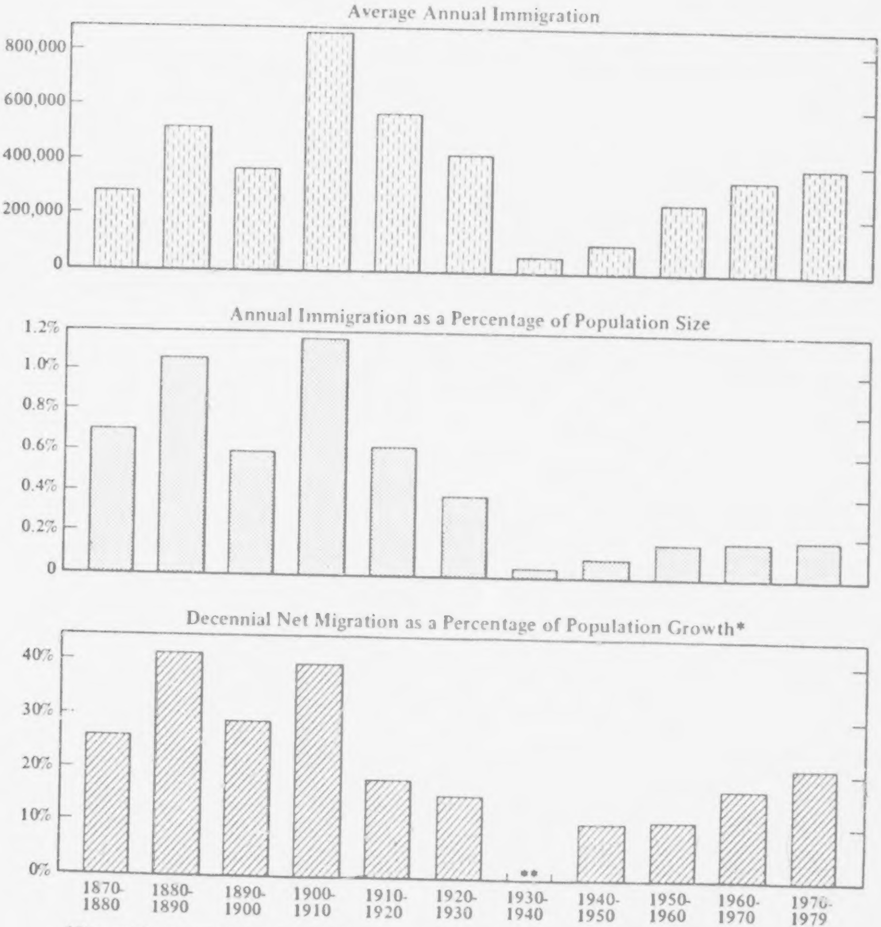
Another problem to which an international network of universities cooperating with the Organization of American States might respond effectively would be that of the international resettlement of refugees. During the Indochinese refugee crisis in 1979 members of Congress, at the meeting in Geneva, urged that the response to this crisis be internationalized. During the 1980 Cuban crisis which began with the occupation of the Peruvian embassy and ended with the application for asylum in the United States by more than 130,000 Cubans, the Congress again recommended that there should be an international response to the needs of these refugees. In spite of the requests of the Congress over the past four years, we seem to have been unable to organize a structure through which refugees can be successfully resettled in Latin America.

We respectfully propose that the Organization of American States working through a network of universities could plan a small resettlement program in various Latin American countries. This pilot program could include universities in Latin America working with a university in the District of Columbia to organize pilot resettlement programs in various Latin American countries. The universities selected would use their current community development programs to take advantage of staff trained in social work, anthropology and social psychology to implement this resettlement program.

It would be necessary to provide funds for the administration of the program and to provide financing for a fund from which the refugees could borrow during the initial resettlement period.

On behalf of our President, Rev. Timothy S. Healy, S.J., thank you for the opportunity to appear before this Committee.

## LEVELS AND RATES OF U.S. IMMIGRATION, 1870-1979

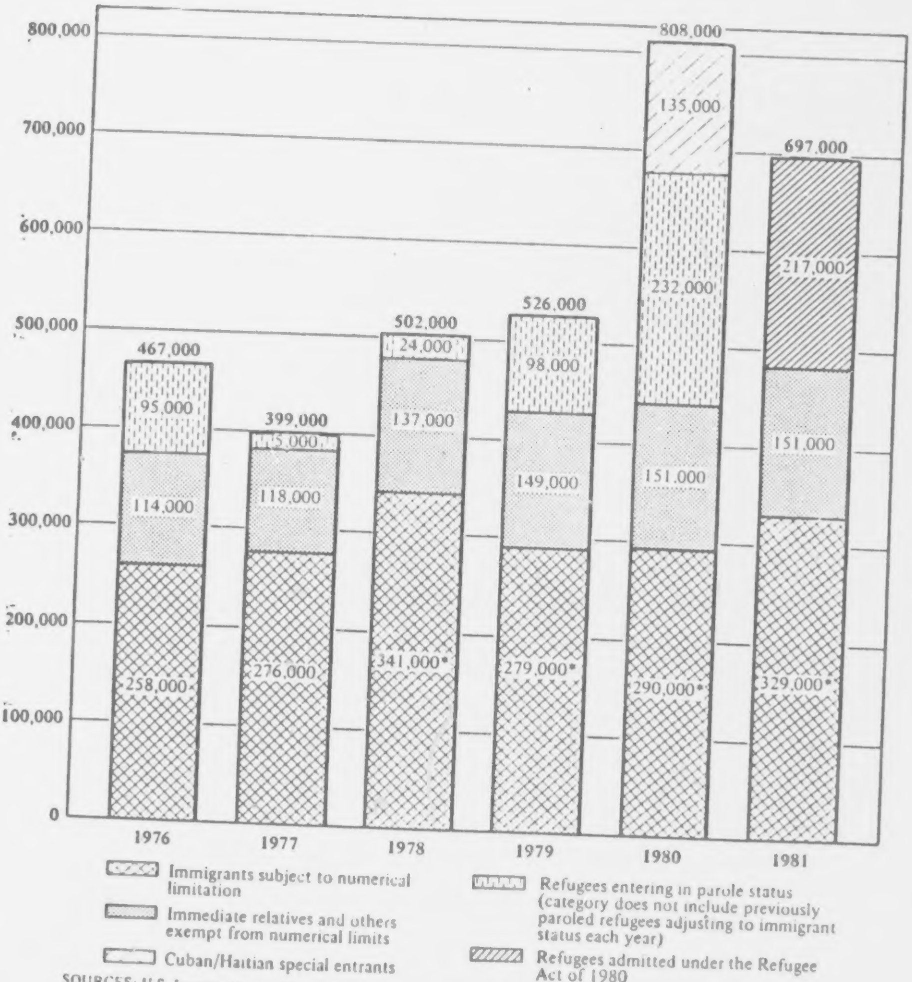


*Decennial net migration as a percentage of population growth equals total decennial population increase minus natural population increase (births and deaths) divided by total population increase.

**Emigration exceeded immigration by 85,000.

SOURCE: "Immigrants: How Many?" Select Commission on Immigration and Refugee Policy, January 1980.

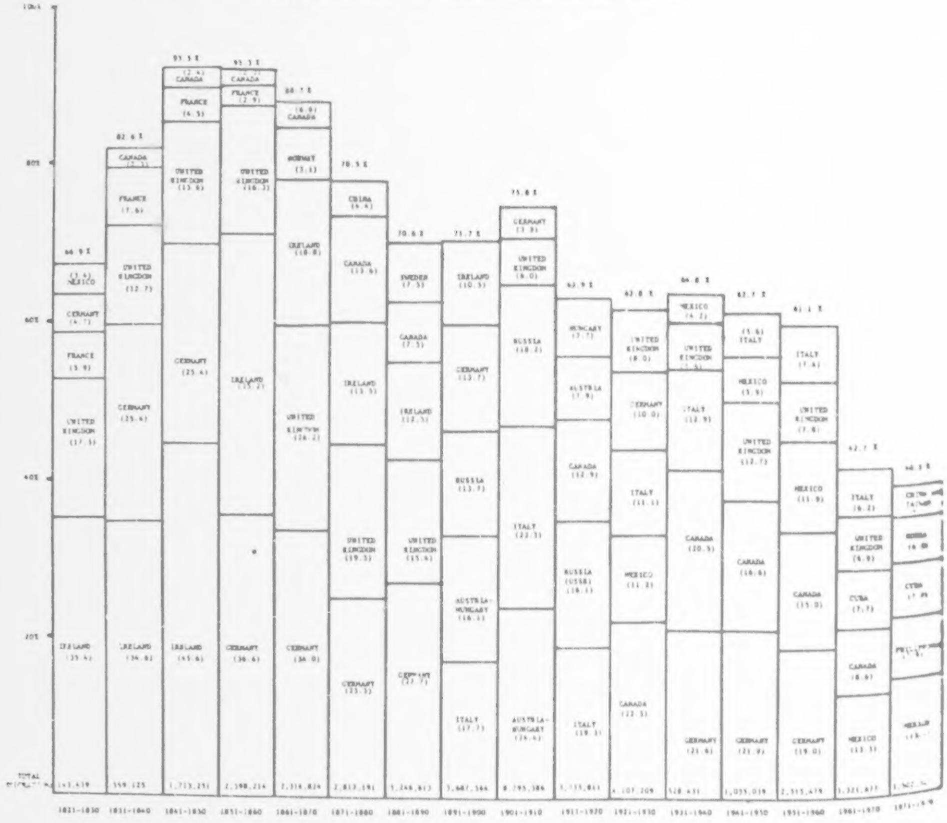
U.S. GROSS IMMIGRATION, 1976-1981



SOURCES: U.S. Immigration and Naturalization Annual Reports, 1976-78 and unpublished INS data, 1979; INS reports of aliens paroled and special entrants admitted, 1976-80; State Department field visa issuance reports and projections based on previous totals in certain categories for 1980 and 1981.

* Includes part of the 145,000 extra numerically limited visas issued as a result of the Silva v. Levi court decision

## THE FIVE COUNTRIES WITH HIGHEST LEVELS OF IMMIGRATION TO THE UNITED STATES BY DECADE, 1821-1978

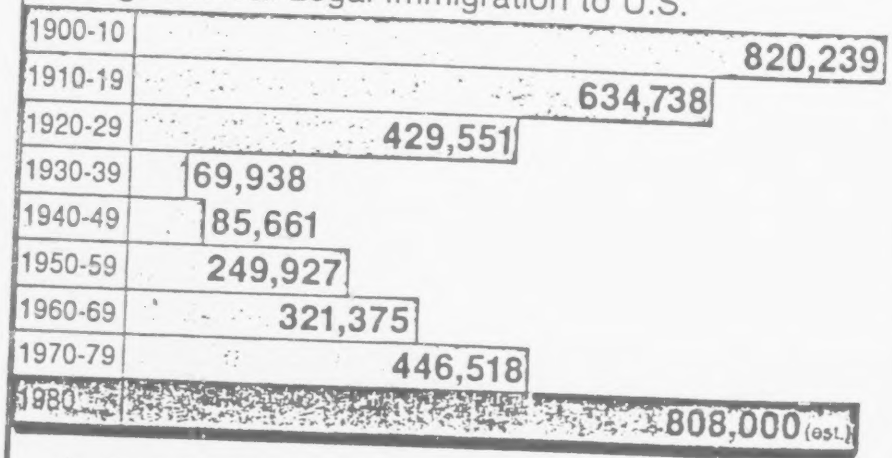


SOURCE: Based on figures in Tables 13 and 14, INS Annual Report, 1978.

'TE: Reporting of immigration via U.S. land borders with Mexico and Canada was not fully established until 1908.

## New Wave of Immigrants...

Average Annual Legal Immigration to U.S.



★ An additional 500,000 to 1 million persons are believed to enter the U.S. illegally each year.

## ...And New Origins

Immigrants to U.S.
by Region

| 1959 | | 1979 (latest) |
|---|---|---|
| 60.9% | Europe | 13.4% |
| 8.9% | Asia | 41.4% |
| 1.1% | Africa | 2.6% |
| 0.5% | Oceania | 1.0% |
| 19.8% | Latin America | 38.6% |
| 8.9% | Canada | 3.0% |

Note: Totals may not add because of rounding

USN&WR—Basic data: U.S. Immigration and Naturalization Service; 1980 estimate by Select Commission on Immigration and Refugee Policy

Senator **Kasten**. Father George, thank you. Your poposals are innovative and, as you know, the subcommittee is interested in a number of aspects of your approach. We are going to take this up in more detail with the State Department.

As you might already know, during testimony on behalf of the State Department refugee assistance program I asked a series of questions with reference to some of your ideas, and it seemed that they were at least interested and positively inclined toward consideration of your proposals.

So, I am optimistic, and we thank you very much for your testimony and for your participation here today.

Father George. Thank you, Mr. Chairman.

Senator **Kasten**. Mr. James Sheffield.

Mr. Sheffield is president of the U.S. Committee for UNICEF, and it is our pleasure to have you appear before the committee today.

## U.S. COMMITTEE FOR UNICEF

### STATEMENT OF JAMES R. SHEFFIELD, PRESIDENT, U.S. COMMITTEE FOR UNICEF

### ACTIVITIES OF UNICEF

Mr. **Sheffield**. Thank you, Mr. Chairman.

I am James R. Sheffield. I have been the president of the U.S. Committee for UNICEF since last July.

The U.S. Committee is a national citizens organization which was established in 1947 to inform and educate the American people on the work of UNICEF and the special needs of children worldwide, as well as to raise funds to support UNICEF's work.

The U.S. Committee is supported by 3 million volunteers throughout the United States and countless millions more Americans who contribute to UNICEF through the U.S. Committee each year.

First, Mr. Chairman, I would like to tell you what UNICEF does in response to the basic needs of children. In a recent year, UNICEF helped to equip applied nutrition programs in 151,000 villages; assisted programs to supply clean water and improved sanitation in 93 countries; supplied vaccines and medicines for tuberculosis, diphtheria, tetanus, measles, polio, malaria, leprosy, and trachoma to protect and treat millions of children; helped to equip more than 73,000 primary schools, secondary schools, and teacher-training centers with modern teaching aids; provided stipends to train 67,000 local village and youth leaders to help organize basic services in their own villages and communities, and helped to develop new methods to promote breastfeeding.

### CONSEQUENCES OF GLOBAL ECONOMIC DIFFICULTIES

The current global economic difficulties have been especially severe in rural areas and on agriculture, on which the majority of the Third World poor population still depends. Specifically, these consequences include the following:

First, recession reduces the resources available to governments for social services on which poor people are especially dependent.

Second, when the wealthier countries are already cutting their own national social services, they are less willing to increase assistance to people in other countries.

Third, and most importantly, constrictions in economies and government services not only reduce benefits to the poor but also reduce the capacity of the poor to fend for themslves.

### UNICEF PER CHILD EXPENSES

The 111 countries with which UNICEF cooperated in 1981 had a child population of approximtely 1.3 billion. UNICEF's expenditure on programs in 1981 was the equivalent of only about 23 cents for each of these children.

The real test of UNICEF's work is the extent to which it supports and encourages national efforts to improve the situation of their children. To do this, UNICEF has developed a strongly country-specific approach to programing based on a basic services strategy for meeting children's needs, in which community participation, use of paraprofessionals and appropriate technology, and a multisectoral approach to addressing needs, are recognized as the crucial factors in securing widespread improvements in children's lives.

UNICEF remains apolitical and has been able to provide humanitarian services in areas of the world which would not otherwise be reached by bilateral programs. Such a case is the relief work performed by UNICEF as the lead U.N. agency in furnishing substantial relief in Kampuchea and on the Thai border.

Having offered only this brief review, Mr. Chairman, of what UNICEF does, I thought it might be more appropriate to this committee's interests to discuss today how UNICEF does it—the organization's methods of operations; its cost effectiveness, and how it maximizes the value achieved from the work of other multilateral and bilateral development assistance efforts.

Proposals for UNICEF cooperation with a developing country are evaluated from the point of view of their benefit to children—direct or indirect—irrespective of their additional benefits to other age groups.

UNICEF also evaluates the costs to the country as carefully as it evaluates the costs to UNICEF. This applies not only to costs in getting programs established but also to recurring costs, in which external participation should be much less.

UNICEF is also concerned that programs need a long-term, rather than a short-term perspective. Since the objective is a continuing expansion of national capacity for services benefiting children, it is important to assess what is likely to happen after the end of UNICEF cooperation in a project activity—to assure that the improvements will not be lost as soon as the outside support concludes.

UNICEF places particular emphasis on the use of national or regional expertise, wherever feasible, for aspects of program preparation and execution.

UNICEF today is the most decentralized of all U.N. agencies and perhaps of all such agencies in the field. In fact, 85 percent of its staff are based away from its headquarters in New York. Indeed, UNICEF is the only international agency permitted by most governments to maintain offices at the regional and local level and to work directly with subnational authorities, rather than being restricted to capital cities.

The U.N. external auditors have noted that more authority evolves on the UNICEF representative in a country than on any other U.N. field person. There is incalculable value to this dispersion of the staff and activities; it puts UNICEF right where the true needs and opportunities exist, as close as possible to the people whom it is attempting to help.

The major concern is how to get more from proportionally less. This has always been important to UNICEF because of the tremendous gap between need—as exemplified by the 15 million small children who die each year in the developing countries from the combination of gross underdevelopment and abject poverty—and the limited resources available to UNICEF.

In order to get far greater benefits for children from each UNICEF dollar, UNICEF is seeking to put still greater focus in its field projects on activities in which the affected people contribute more through their own increased participation.

Such participation makes for a successful long-term project and lets UNICEF work more effectively with other organizations and development institutions. Increased coordination encourages those organizations both to apply more of their resources to UNICEF objectives and to utilize these resources more effectively in benefiting children.

UNICEF continues to build cooperative activities with other U.N. agencies, bilateral programs and nongovernmental organizations. The Secretary General of the United Nations stated just 2 weeks ago:

> I am also very pleased by the information which I come [sic] across that confirms that UNICEF actively and creatively seeks new links and new modalities of cooperation with other organizations of the United Nations system. Your relationship with the World Health Organization, of course, is a model of cooperative endeavor, not merely in rhetoric but in practice as well. It is a model which I know you seek to extend to other organizations as well. Such cooperation is vital to our ability to maximize the contribution with the United Nations can make to development within all countries and harmonious relations between all countries.

### UNICEF'S DIRECTION AND BUDGETARY PRIORITIES

Mr. Chairman, last year this subcommittee asked several questions about UNICEF's direction and budgetary priorities. Let me assure this subcommittee on the items which you noted in your report on the Foreign Assistance Appropriations Act for fiscal year 1982:

First, there has not been any change in UNICEF's perception of its mandate, nor has it considered any such change. As the Executive Director of UNICEF, James P. Grant, stated at the opening of the 1982 session of the Executive Board just last month:

> UNICEF is the United Nations Children's Fund. Our concern is for children, their protection; the enhancement of the services available to them, and the improvement of their opportunity to realize their full potential, is our only concern.

That UNICEF in practice adheres to this mandate has been confirmed repeatedly by the U.S. Department of State, the U.S. Mission to the United Nations, and even other committees of the Congress which have conducted indepth examinations.

Second, the subcommittee last year also expressed concern over the expansion of UNICEF's budget. But as Assistant Secretary Abrams told the subcommittee, expansion comes as a result of increased contributions from other donors and comes at no expense to the United States. On the basis of rather substantial increases in the level of funds originally pledged by governments, UNICEF proposed a commensurate expansion to make effective use of those funds.

Unfortunately, large portions of those expected increases in contributions did not materialize, despite the donors' intention, in large part because of the drastic fall in the exchange-rate value of the pledged currencies. As a result, UNICEF's current budget through 1985 allows for essentially no growth in staff over 1981 levels.

Many U.S. leaders feel strongly about the success of UNICEF's endeavors. The U.S. Ambassador to the United Nations, Mrs. Jeane Kirkpatrick, told this subcommittee last month that UNICEF and several other U.N. specialized agencies "thoroughly deserve our support."

She went on to say at that time:

> Not only are they well-run programs but they are very sensitive to the United States, to our concerns and values. We get answers to our questions, we get help when we need it, and we certainly do not in any sense desire censure or oppose those programs.

Your colleague, Senator Nancy Kassebaum, speaking last month as well stated:

> Certainly, UNICEF has played an exemplary role in sharing health around the world. Americans can be proud of the $41.5 million UNICEF contribution we make through our Government, as well as the smaller amounts we contribute. This work assumes even greater importance at a time when public spending, both foreign and domestic, is being restrained.

### UNICEF CONTRIBUTION INCREASES BY OTHER COUNTRIES

Mr. Chairman, I want you to know that many other governments are pulling their weight in financing UNICEF, as Congress rightly expects. For example, you are familiar with the fact that on a per capita basis, 10 countries contribute more than the United States, and two other countries are very close behind.

Several governments have substantially increased their contributions to UNICEF's general resources in the past year or two by percentages of 40 and 50 percent, and several even over 100 percent.

The Italian Government in particular, despite its economic problems, has responded to strong popular demand and has increased its general contribution to UNICEF from $500,000 in 1979 to $2.5 million in 1980, to $5 million in 1981, and to $20 million for 1982. In addition, the Government of Italy has just pledged several additional special purpose contributions to UNICEF, totaling another $10 to $20 million, and has pledged a 5-year contribution of $100 million to finance joint UNICEF-WHO projects in nutrition and essential drugs.

The governments of the seven Arab States, under the leadership of UNICEF's Special Envoy, his Royal Highness Prince Talal of Saudi Arabia, have pledged $25 million in governmental contributions and $15 million in private contributions for 1982.

Senator **Kasten**. Mr. Sheffield, if you could summarize the remaining parts of your statement, that would be helpful to the others who are waiting.

Mr. **Sheffield**. Yes, sir. Thank you.

And of course, each developing country which UNICEF assists is required to bear the largest share of the cost of the projects which UNICEF and the country undertake cooperatively. Indeed, UNICEF's contribution is only a very minor, but catalytic, input into a developing country's efforts to improve the condition of its children.

Obviously, Mr. Chairman, while the United States has always been a leader in UNICEF, we are not alone. Many other countries are also tangibly expressing their recognition of the investment in children, perhaps the single most important investment that any country or the world community can make. Congress can rightly expect other governments to do their fair share—as they increasingly have—but that does not absolve us of the obligation to do our fair share as well.

We, of course, are pleased that Congress has authorized a U.S. contribution for next year of $45 million. I know I speak on behalf of the 3 million American volunteers for UNICEF when I respectfully urge, Mr. Chairman and members of the subcommittee, that this amount be appropriated by Congress.

We Americans can help to stem the tide. We have the resources and the deep understanding of the consequences if we do not do as much as we can to help. Children cannot wait for better economic times.

Thank you, Mr. Chairman.

[The prepared statement of James R. Sheffield follows:]

# PREPARED STATEMENT OF JAMES R. SHEFFIELD
## PRESIDENT
## UNITED STATES COMMITTEE FOR UNICEF

Thank you, Mr. Chairman, for inviting me to appear before this Subcommittee today to offer a few comments about United States participation in the United Nations Children's Fund.

I am James R. Sheffield and I have been the President of the United States Committee for UNICEF since last July. The U.S. Committee is a national citizens' organization which was established in 1947 to inform and educate the American people on the work of UNICEF and the special needs of children worldwide, as well as to raise funds to support UNICEF's work. The U.S. Committee is supported by 3 million volunteers throughout the U.S and countless millions more Americans who contribute to UNICEF through the U.S. Committee each year.

First, Mr. Chairman, I would like to tell you what UNICEF does in response to the basic needs of children and the worldwide conditions of high infant mortality, low life expectancy, maternal mortality, limited health services, poor drinking water, malnutrition, general illiteracy, and propensity toward childhood disabilities--which afflict hundreds of millions of children throughout the developing world. In a single recent year (1980) UNICEF helped to equip applied nutrition programs in 151,000 villages; assisted programs to supply clean water and improved sanitation in 93 countries; supplied vaccines and medicines for tuberculosis, diptheria, tetanus, measles, polio, malaria, leprosy, and trachoma to protect and treat millions of children; helped to equip more than 73,200 primary schools, secondary schools and teacher-training centers with modern teaching aids; provided stipends to train 67,200 local village and youth leaders to help organize basic services in their own villages and communities; and helped to develop new methods to promote breastfeeding.

Mr. Chairman, for developing countries as a group, there was an actual fall in real per capita income in 1981, for the first time since the 1950's. These general economic difficulties have been especially severe in rural areas and in agriculture, on which the majority of the third world population still depends. The consequences of these economic conditions fall most severely on the world's poor people. Specifically, these consequences include the following:

First, recession reduces the resources available to Governments for social services on which poor people are especially dependent. Even in the most wealthy countries, the past year has seen a steady reduction in services for nutrition, health care, education, housing and employment.

Second, when the wealthier countries are already cutting their own national social services, they are less willing to increase assistance to people in other countries. One of the tragic ironies of the current international economic situation is that development assistance is being restricted while the needs for it are more desperate than ever.

Third, and most importantly, constrictions in economies and government services not only reduce benefits to the poor but also reduce the capacity of the poor to fend for themselves. As the earning power of the poor declines so does health and nutrition--thus further dooming those already least able to cope.

The 111 countries with which UNICEF cooperated in 1981 had a child population (ages 0-15) of approximately 1.3 billion. UNICEF's expenditure on programs in 1981 was the equivalent of only about 23¢ for each of these children. Given the size of these child populations and the magnitude of their needs, UNICEF resources alone will never be sufficient to guarantee the survival and fulfillment of millions of young lives presently threatened by poverty and disease.

The real test of UNICEF's work is the extent to which it supports and encourages national efforts to improve the situation of their children. To do this, UNICEF has developed a strongly country-specific approach to programming based on a basic services strategy for meeting children's needs, in which community participation, use of para-professionals and appropriate technology, and a multi-sectoral approach to addressing needs are recognized as the crucial factors in securing widespread improvements in children's lives.

UNICEF remains apolitical and has been able to provide humanitarian services in areas of the world which would not otherwise be reached by bilateral programs. Such a case is the relief work performed by UNICEF as the lead United Nations agency in furnishing substantial relief in Kampuchea and on the Thai border.

Having offered only this brief review, Mr. Chairman, of what UNICEF does, I thought it might be more appropriate to this Committee's interests to discuss today "how UNICEF does it" -- the organization's method of operations, its cost-effectiveness, and how it maximizes the value achieved from the work of other multilateral and bilateral development assistance efforts.

Proposals for UNICEF cooperation with a developing country are evaluated from the point of view of their benefit to children (direct or indirect), irrespective of their additional benefits to other age groups.

UNICEF also evaluates the cost to the country as carefully as it evaluates the costs to UNICEF. This applies not only to costs in getting programs established but also to recurring costs, in which external participation should be much less.

UNICEF is also concerned that programs need a long-term, rather than a short-term, perspective. Since the objective is a continuing expansion of national capacity for services benefiting children, it is important to assess what is likely to happen after the end of UNICEF cooperation in a project activity--to assure that the improvements will not be lost as soon as the outside support concludes.

UNICEF places particular emphasis on the use of national or regional expertise, wherever feasible, for aspects of program preparation and execution.

Finally, UNICEF tries to encourage the acceleration of external aid for services benefiting children and, whenever feasible, seeks to arrange UNICEF cooperation to encourage large-scale development aid.

UNICEF today is the most decentralized of all United Nations agencies, and perhaps of all such agencies in its field. In fact, 85 percent of its staff are based away from its headquarters in New York. Indeed, UNICEF is the only international agency permitted by most governments to maintain offices at the regional and local level and to work directly with sub-national authorities, rather than being restricted to capital cities. The U.N. external auditors have noted that more authority devolves on the UNICEF representative in a country than on any other UN field person. There is incalculable value to this dispersion of the staff and activities; it puts UNICEF right where the true needs and opportunities exist... as close as possible to the people whom it is attempting to help.

The major concern at UNICEF is how to get "more from proportionately less." This has always been important to UNICEF because of the tremendous gap between need -- as exemplified by the 15 million small children who die each year in the developing countries from the combination of gross underdevelopment and abject poverty -- and the limited resources available to UNICEF. In order to get far greater benefits for children from each UNICEF dollar, UNICEF is seeking to put still greater focus in its field projects on activities in which the affected people contribute more through their own increased participation. Such participation makes for a successful long-term project and lets UNICEF work more effectively with other organizations and development institutions. Increased coordination encourages those organizations both to apply more of their resources to UNICEF objectives and to utilize these resources more effectively in benefitting children. For example, the cost per beneficiary of UNICEF's rural drinking water programs which involve the beneficiaries is much less than those programs of agencies which rely primarily on outside contractors.

In the long run, UNICEF must be measured not only by the dollars which it didn't waste, but also by the dollars which it put to maximum advantage. That measurement will not appear in financial reports or balance sheets. It will only evidence itself in the impact which UNICEF can have on the lives of children in each country in which it cooperates.

UNICEF continues to build cooperative activities with other United Nations agencies, bilateral programs, and non-governmental organizations. The Secretary General of the United Nations stated just 2 weeks ago:

> "I am also very pleased by the information which I come across that confirms that UNICEF actively and creatively seeks new links and new modalities of co-operation with other organizations of the United Nations system. Your relationship with the World Health Organization, of course, is a model of co-operative endeavour, not merely in rhetoric, but in practice as well. It is a model which I know you seek to extend to other organizations as well. Such co-operation is vital to our ability to maximize the contribution which the United Nations can make to development within all countries and harmonious relations between all countries." */

Mr. Chairman, last year this Subcommittee asked several questions about UNICEF's direction and budgetary priorities. Let me assure the Subcommittee on the items which you noted in your Report on the Foreign Assistance Appropriations Act for FY 1982:

First, there has not been any change in UNICEF's perception of its mandate, nor has it considered any such change. As the Executive Director of UNICEF, Mr. James P. Grant, stated at the opening of the 1982 session of the Executive Board just last month:

> "UNICEF is the United Nations Children's Fund. Our concern is for children. . .their protection, the enhancement of the services available to them, and improvement of their opportunity to realize their full potential, is our only concern."

That UNICEF in practice adheres to this mandate has

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*/ Address to the UNICEF Executive Board, May 21, 1982.

been confirmed repeatedly by the United States Department of State, the U.S. Mission to the United Nations, and even other Committees of the Congress which have conducted in-depth examinations.

Second, the Subcommittee last year also expressed concern over the expansion of UNICEF's budget. But as Assistant Secretary Abrams told the Subcommittee, "[UNICEF's proposed budgetary] expansion comes as a result of increased [voluntary] contributions from other donors", and comes at no expense to the United States. On the basis of rather substantial increases in the level of funds originally pledged by governments, UNICEF proposed a commensurate expansion to make effective use of those funds. Unfortunately, large portions of those expected increases in contributions did not materialize, despite the donors' intentions, in large part because of drastic fall in the exchange-rate value of the pledged currencies. As a result, UNICEF's current budget through 1985 allows for essentially no growth in staff over 1981 levels.

Many U.S. leaders feel strongly about the success of UNICEF's endeavors. The U.S. Ambassador to the United Nations, Mrs. Jeanne Kirkpatrick, told this Subcommittee last month that UNICEF and several other U.N. specialized agencies "thoroughly deserve our support". She went on to say at that time,

> "Not only are they well run programs, but they are very sensitive to the United States, to our concerns and values, . . . we get answers to our question, we get help when we need it, and we certainly do not in any sense, desire censure or oppose those programs. . ."

Your colleague, Senator Nancy Kassebaum, speaking last month as well, stated,

> "Certainly, UNICEF has played an exemplary role in sharing health around the world.

> Americans can be proud of the $41.5 million UNICEF contribution we make through our government as well as the smaller amounts we contribute....The effectiveness of UNICEF's programs have resulted in widespread public support within our country, where over 3 million volunteers participate in fund-raising efforts. This work assumes even greater importance at a time when public spending--both foreign and domestic--is being restrained."

Mr. Chairman, I want you to know that many other governments are pulling their weight in financing UNICEF, as Congress rightly expects. For example:

*You are well familiar with the fact that, on a per capita basis, ten countries (Sweden, Norway, Denmark, Switzerland, the Netherlands, Finland, Canada, the United Kingdom, New Zealand and Australia) contribute more than the United States; two other countries (West Germany and Saudi Arabia) are close behind.

*Several governments have substantially increased their contributions to UNICEF's general resources in the past year or two, by percentages of 40 percent, 50 percent, and even several hundred percent, including Australia, France, Italy, and others.

*The Italian government, in particular--despite its economic problems--has responded to strong popular demand and has increased its general contribution to UNICEF from $500,000 in 1979. . .to $2.5 million in 1980. . .to $5 million in 1981. . .to $20 million for 1982! In addition, the Government of Italy has just pledged several additional special purpose contributions to UNICEF, totalling another $10-20 million, and has pledged a 5-year contribution of $100 million to finance joint UNICEF-WHO projects in nutrition and essential drugs.

*The governments of the seven Arab Gulf States, (Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) under the leadership of UNICEF's Special Envoy, HRH Prince Talal bin Abdul Aziz al Saud of Saudi Arabia, have joined together to create the Arab Gulf Program for United Nations Development Organizations, pledging $25 million in governmental contributions and $15 million in private contributions for UNICEF for 1982. That $25 million governmental contribution represents a twelve-fold increase in UNICEF's income from those seven states.

*And, of course, each developing country which UNICEF assists is required to bear the largest share of the cost of the projects which UNICEF and the country undertake cooperatively. Indeed, UNICEF's contribution is only a very minor--but catalytic--input into a developing country's efforts to improve the condition of its children.

Obviously, Mr. Chairman, while the United States has always been a leader in UNICEF--both in setting its policies and in funding its budget--we are not alone. Many other countries are also tangibly expressing their recognition that investment in children is perhaps the single most important investment that any country--and the world community as a whole--can make. The Congress can rightly expect other governments to do their fair share--as they increasingly have--but that does not absolve us of the obligation to do our fair share as well.

We are, of course, pleased that Congress has authorized a United States Government contribution to UNICEF for next year of $45 million. I think I speak on behalf of the

3 million American volunteers for UNICEF when I respectfully urge, Mr. Chairman and members of the Subcommittee, that this amount be appropriated by Congress.

The U.S. must sustain its traditional generosity to UNICEF. Every two seconds of 1981 a child died--17 million young lives lost in that year alone. Only two years ago the World Bank reported that the total number of people living in absolute poverty--then 780 million--was decreasing. Now, both the World Bank and the United Nations report that the number of people--including hundreds of millions of children--suffering in gross poverty is instead increasing.

We Americans can help to stem this tide. We have the resources and a deep understanding of the consequences if we do not do as much as we can to help. Children cannot wait for better economic times.

## UNICEF INVOLVEMENT WITH DISARMAMENT

Senator **Kasten**. Mr. Sheffield, thank you.

I was happy that you, in your statement, referenced the expression by the subcommittee last year concerning a drifting away, or at least Congress' perception of a drifting away, of UNICEF from the traditional mandate into more general development work that was in fact being covered by other departments. So, we are pleased with the general direction not only in the meeting last month but, I think, more particularly the meeting 1 year ago when these questions were before your leadership group and groups.

One other question. Do you believe that UNICEF is the proper forum for political discussions, and particularly political discussions such as disarmament which, I understand, are going on today within UNICEF?

Mr. **Sheffield**. No, in a way, I really do not. UNICEF is very proud of the fact that it is apolitical.

Senator **Kasten**. You made that point in your testimony.

Mr. **Sheffield**. Yes. But I did attend many of the sessions of the UNICEF Executive Board and was struck by the fact that many of the delegates kept repeating the need for disarmament and pointed again and again to the enormous amount of resources that are spent worldwide on armaments and military expenditures, rather than addressing themselves to the needs of children.

I think it would perhaps be more efficient use of our time if those issues were separated, but they inevitably become linked.

Senator KASTEN. I think it certainly would be more efficient in terms of the use of time and, frankly, it would be more advantageous in terms of being able to find the scarce and necessary dollars that you referred to in your testimony.

Mr. SHEFFIELD. Yes.

Senator KASTEN. I think it should be understood that there are large numbers of people in the Congress that are concerned when we see groups such as UNICEF getting into political discussions where in fact they should be apolitical or nonpolitical and be concerned about the delivery of essential services and in programs to needy children throughout the world.

Thank you very much for your testimony today.

Mr. SHEFFIELD. Thank you, Mr. Chairman.

Senator KASTEN. Mr. Werner Fornos.

Mr. Fornos, you are the director of the Population Action Council, and we are pleased to have you before us today.

## POPULATION ACTION COUNCIL

## STATEMENT OF WERNER FORNOS, DIRECTOR, POPULATION ACTION COUNCIL

### POPULATION ASSISTANCE

Mr. FORNOS. Thank you, Mr. Chairman.

It is a pleasure to appear again before the committee. I have submitted my remarks for the record and hope that they would be included. I would like to sort of summarize for the 5 minutes you have given me the essence of what I think the international population problem is today.

As we appear before you in support of increased effective population assistance around the world, we are looking at a decade of accomplishment which has seen a dramatic decline in birth rates around the globe—a decline which I believe would not have been possible if it had not been for the staunch support of this committee working for population programs around the globe.

Had we not had this kind of cooperation, it is my considered opinion that the population figures we are looking at today of 6 billion people by the year 2000 would have been, as was predicted in the 1960's, 7.3 billion. So, programs are working.

A growth rate in the middle of the 1960's of 1.99 percent dropped in the 1970's to 1.72, and, according to the latest predictions, will probably come down to around 1.5 percent by the year 2000.

If this is the good news, what is the bad news? Well, you might give some thought to the 6 billion or so extra people that are going to be on this planet needing housing, food, education, health, and are going to have very thinly spread—especially in the poorest countries—resources.

But there could be even more people because the scenario we are faced with is that the world will stabilize at somewhere around 10.5 billion, given current growth rates, or possibly even as large as 14 billion by the year 2110.

Though population has been given tremendous support by governments around the world, with some 100 countries donating funds to population efforts, these efforts are being threatened by the world recession and its impact upon funding.

### HOST NATION CONTRIBUTIONS TO POPULATION CONTROL

One of the issues that I think should be particularly noteworthy to this committee is that today four developing countries are spending $4½ for every $1 of donor assistance in coming to grips with population problems themselves.

Ambassador Jeane Kirkpatrick—who seems to be the favorite person to be quoted here today one way or another—last week at the United Nations made the point that development assistance without population planning was akin to pouring water into the proverbial bucket with a hole in the bottom.

You know that Mr. Peter McPherson, the Administrator for AID, has been before this committee and has also issued a report to the Congress, in his capacity as chairman of the Interagency Committee for Foreign Aid, in which he said that family planning programs and family planning assistance have been generally considered to have been both cost effective and highly successful.

Mr. McPherson, as you may recall, last year appeared some five times before appropriate committees urging this Congress to appropriate the President's request of $253 million for population assistance.

In the second round of program cuts which was advocated in September and became necessary by the slumping economy, the President's request was scaled down to $211 million. Yet, 6 weeks after the $211 million was granted by a Conference Committee, which you chaired, the administration has now come before you and asked for a reduction to $201 million. Ostensibly they say that that cut is being requested because the increase that the Congress granted was of a one-time nature.

I submit to you that three of the four major committees involved in this debate and in the funding and authorizing of this program submitted significantly higher recommendations to the Congress, and that the real purpose behind the shortfall is the efforts on the part of AID to do an end-run around Congress.

What we are faced with is that the Private Investment Operation headed by Mrs. DuPont has not been able to get the kind of funding out of the Congress that is necessary. As a result, in order to start that program up, the agency is trying to transfer $10 million out of the population account and $19 million out of the health account to make a startup effort of $29 million.

Now, I realize they can do this under your authority of doing a notification of committee and allowing them to transfer up to 15 percent.

But I submit that this is really a circumvention of the will of the Congress. The Senate and the House authorizing committees have authorized for 1983 $211 million which are desperately needed. By Mr. McPherson's own words in his report to this Congress, "[t]here are tremendous shortfalls in funding presently out there. At least one-third of the projects from poor countries that are being requested for funding and assistance cannot be funded because there are not sufficient resources available."

I appeal to you to appropriate for 1982 the $211 million already authorized.

Thank you very much, Mr. Chairman.

[The prepared statement of Werner Fornos follows:]

## PREPARED STATEMENT OF WERNER FORNOS
DIRECTOR

## THE POPULATION ACTION COUNCIL

Mr. Chairman, I appreciate the opportunity to appear again before this committee in support of international population assistance. Over the last decade, there has been a significant decline in birth rates worldwide, reflecting the efforts of an increasing number of developing world governments to slow down or maintain their population growth. The challenge ahead is to keep up this momentum. Today, I would like to discuss with you the successes and the effect that today's recession could have on tomorrow's population.

From the beginning of the 1960s to the end of the 1970s, the annual global population growth rate has declined from 1.99 percent to 1.72 percent and the United Nations Fund for Population Activities estimates that by the end of the century the growth rate will have fallen to 1.5 percent.

However, the most conservative United Nations projections reveal that there will be six billion people added to the world before global population stabilizes. This, in itself, poses tremendous problems for the poorest countries --- where 90 percent of this increase is expected --- to provide employment, education, housing, health care and other basic services for their people.

It must be emphasized that the projection to which I refer is the more conservative of two world population projections advanced by the United Nations. The conservative estimate, assuming progress at the present level, shows world population stabilizing at 10.5 billion in the year 2110. However, if we are unable to maintain current progress in reducing fertility rates, global population could reach 14 billion before it stabilizes.

In determining the future world population, birth rates and death rates must be examined. The growth rate is derived by subtracting the number of deaths from the number of births. There will be 29 births and 11 deaths for every thousand people this year, or a growth rate of 1.7 percent.

Improved health care, resulting in a declining death rate, was the original impetus for rapid world population growth. Largely as the result of extending health care to the poorest nations, infant mortality has been halved in the last 30 years.

Decreasing birth rates present a much more difficult task because it depends not on injections and antibiotics but on millions of voluntary individual decisions reached by millions of individual couples.

Governments are a vital factor in the process of reducing population because they must ensure that these individual decisions are accommodated. Government leadership must be committed to a policy of educating and motivating its people by emphasizing the economic and social advantages of smaller families. And governments must make certain that family planning is available and accessible to those who want it. The fact that the birth rate in developing countries has dropped 16 percent between 1965-70 and 1975-80 demonstrates that governments are achieving positive results in this effort.

There has been a greater and growing interest in national population policies and family planning programs since the 1974 World Population Conference in Bucharest. Only 60 developing world governments supported family planning in 1972, but today there are 94. Led by U.S. initiatives, especially the determination and encouragement of this committee, international aid for population programs has doubled in real terms between 1970 and 1980.

While there is hope that the next World Population Conference, to be held in 1984, will be influential in further accelerating population and family planning efforts, there is also deep concern. The concern centers on the strong possibility that already limited family planning budgets will be further depleted by the world recession. Developing countries, already burdened by a $425 billion debt and rising interest rates, are coping with lower incomes and lower prices for their raw material exports. Governments may find themselves less and less financially able to assist those who want to plan their families. And it is unlikely that families in the third world will be able to afford more than 50 percent of the real cost of contraceptives.

Approximately two-thirds of the costs of national population programs are provided by the governments of developing countries themselves; the remainder is provided through international assistance. However, only two percent of present international development aid is devoted to population assistance.

The costs of making basic family planning services and information available to third world couples needing them are "staggering" and "well beyond the present resources of donors and developing countries combined," according to M. Peter McPherson, administrator of the U.S. Agency for International Development.

In his 1982 annual report to Congress on development issues, McPherson said that population and family planning program assistance are "generally considered to have been both cost-effective and highly successful."

McPherson's comment comes at a time when AID is requesting a $10 million reduction in the U.S. international population assistance budget. While the current expenditure is $211 million, AID is seeking only $201 million for fiscal year 1983. Ironically, this request for a reduction in population funding is being urged just at a time when the demand for such assistance is at its highest.

As Ambassador Jeane J. Kirkpatrick, our permanent representative to the United Nations, put it: "Anyone who has studied development particularly understands that we cannot hope to significantly contribute to the well being of people unless we help them cope with the population growth problem. To do less would be like pouring water into a bucket with a hole in the bottom."

Indeed, the findings of the World Fertility Survey substantiate that the demand for family planning services is not being met. According to WFS, more than half the women in the developing world want no more children; of these, only half have access to effective family planning methods.

The number of women of reproductive age in developing countries will increase by 60 percent between now and the end of the century. Unless our concern about rapid world population growth is supported by meaningful financial assistance, these women must pay the ultimate price of unwanted pregnancies.

I sincerely urge this committee to appropriate the $211 million already authorized for 1983 and to make appropriate urgently needed increases in subsequent years.

## TRANSFERS

Senator KASTEN. Thank you, Mr. Fornos.

We have had preliminary discussions with the State Department and AID about those possible transfers. There has been no formal request and this committee has expressed its concern about the intent of Congress with regard to these different plans and changes.

So, we are aware of the problems or the possible problems that you suggest.

We thank you very much for your testimony, and thank you for taking the time to appear before our committee today.

Mr. FORNOS. Thank you.

Senator KASTEN. Mr. David Sadd.

Mr. David Sadd, I understand you are the executive director of the National Association of Arab Americans and are appearing instead of Mr. James F. Sams; is that correct?

Mr. SADD. That is correct.

Senator KASTEN. We are pleased to have you with us this afternoon.

## NATIONAL ASSOCIATION OF ARAB AMERICANS

### STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS

### ACCOMPANIED BY: ROBERT JOSEPH, PRESIDENT, NATIONAL ASSOCIATION OF ARAB AMERICANS

### ISRAELI INVASION OF LEBANON

Mr. SADD. James Sams took ill this morning, and I would like to say that I am accompanied by the president of the National Association of Arab Americans, Robert Joseph.

I would first like to say that the National Association of Arab Americans appreciates the opportunity to present testmony before this committee. As Americans of Arab descent, our members across the country are particularly concerned that American tax dollars are spent in such a way as to promote U.S. interests in the Middle East by encouraging peace and stability, and by contributing to economic development there.

I have to deviate a bit from my intended remarks because of the events of the past weekend in Lebanon. The National Association of Arab Americans vigorously condemns the long-feared Israeli invasion of Lebanon. There can be no excuse or justification for the use of sophisticated, high-technology weaponry—much of it supplied by the United States and financed by the United States—to occupy the territory of Lebanon and terrorize its inhabitants.

The carnage wrought by Israel's armed forces is in violation of relevant U.S. laws, is out of all proportion to the alleged provocations that Israel adduces in its defense.

The United States must not allow by its inaction itself to be seen as condoning the Israeli invasion.

We do applaud the U.S. vote in the UN calling upon Israel to withdraw its military forces back to the internationally recognized boundaries of Lebanon. But we urge the Congress to take concrete action, using the economic and political leverage with Israel that only the United States has, to discipline Israel and compel compliance with that resolution.

We cannot grant to Israel unrestricted freedom from accountability to the civilized standards of international law. We therefore call upon the Congress to seek a determination that Israel has violated our arms export control laws and cut off all military and economic aid to Israel until it withdraws from conquered Lebanese territory.

We further urge you to reject the proposal to offer Israel 75 additional F-16 fighters.

### VIOLATION OF CAMP DAVID ACCORDS

The invasion of Lebanon shows that the Camp David process has not brought peace to the Middle East. Israel has demonstrated that it has no intention of according to the Palestinian people their inalienable and legitimate rights, and it has shown it is ready to violate the letter and spirit of Camp David at any time.

The United States must develop an alternative to the Camp David process, focused upon the national aspirations of the Palestinian people, if there is to be a comprehensive peace. The United

States needs to undertake an assertive and visionary role in the Middle East that will guarantee the security not just of one of the peoples in the region, but of all.

Until the wider problems confronting the Middle East can be addressed with clarity and comprehension, we will be condemned to standing helplessly by as Israel unilaterally determines the course of events in the region and the ultimate standing of vital U.S. national interests.

Mr. Chairman, of course our financial aid for Israel is the umbilical cord that provides Israel with the wherewithal to undertake such invasion of Lebanon. So, the events of the past week must be of the highest interest to your committee and merit the most serious concern.

### FOREIGN AID REQUEST TO EGYPT AND ISRAEL

Getting back to my prepared remarks, it is apparent from the administration's foreign aid request that the primary beneficiaries of foreign assistance in 1983 as in 1982 will be Israel and Egypt. It should be noted that while the total amount of economic and military assistance proposed for Egypt and Israel are similar, aid to Israel is in reality far more generous.

Egypt, with a per capita GNP of only $480 will receive a sum of approximately $55 per citizen in 1983, while Israel, with an extremely high per capita GNP of $4,150 will be receiving from the American taxpayer the staggering sum of nearly $627 per Israeli citizen.

The disproportionate concentration upon the welfare of Israel is accompanied by a corresponding neglect of other areas of the region, particularly Lebanon and the occupied West Bank and Gaza, which are in desperate need of additional assistance.

It is our belief that the low priority given to Lebanon and the occupied Arab territories in the foreign aid request represent a serious underestimation of the importance of these regions to the maintenance of peace in the Middle East.

We urge that the U.S. Congress earmark additional funds for both Lebanon and the West Bank and Gaza as a means of contributing to the overall stability of the region and underscoring our commitment to peace.

I would like to comment on several of the individual country proposals in the foreign aid request. Lebanon first.

Successive administrations and the U.S. Congress have been acutely aware of the many problems facing Lebanon and have been sympathetic to the plight of the Lebanese. But the United States must do more to assist Lebanon in its efforts at reconciliation and reconstruction than it has been prepared to do in the past. Surely, an outlay of only $15 million in FMS loans will do little to help the Lebanese government develop the capability to reduce and eliminate civil conflict in Lebanon.

Surely, an economic support fund allotment of only $8 million to Lebanon will do little to help that government "work for the restoration of essential public services and a return to normalcy of life" as the administration hopes.

We strongly urge the U.S. Congress to earmark a much higher amount of economic and military aid to Lebanon. We urge that $100 million be earmarked for economic reconstruction and that the foreign military sales credits be set at a level of $100 million so that the Lebanese Army can be built to the point where it can effectively maintain security throughout the country.

### WEST BANK AND GAZA

Regarding the West Bank and Gaza. We are concerned that Israeli policies in the West Bank and Gaza are severely undermining changes for peace. The Palestinian Christian and Moslem inhabitants of these territories who have suffered under almost 15 years of Israeli occupation are in desperate need of American assistance.

The administration has proposed that $6.5 million be funneled through private and voluntary organizations. But this is woefully inadequate. AID has indicated in its official proposal submitted to Congress that, "[t]he sizeable number of projects proposed by community groups, which are rejected or deferred by PVO's because of funding limitations, indicates a substantial demand for assistance in self-help efforts which is not being met. The PVO's continue to encounter periodic difficulties in receiving clearance from the Israeli Government to proceed with individual subprojects."

We urge that funding for the West Bank and Gaza be increased to $15 million for 1983 and urge further that the U.S. Government put pressure on Israel not to put intolerable obstacles in the way of economic development programs there.

With regard to Israel, we oppose the disproportionate amount of American foreign aid going to Israel, particularly in light of the inadequate assistance given to Lebanon and the West Bank and Gaza.

In the past year, Israel has destroyed an Iraqi nuclear research facility; mercilessly bombed heavily populated areas of Beirut last summer, killing over 300 people; annexed the occupied Syrian Golan Heights; edged even closer to annexation of the West Bank, deposing popularly elected Arab officials.

For the past few months, moreover, the United States has had to exercise all of its influence and diplomatic acumen in a vein attempt to prevent Israel from violating Lebanese sovereignty by mounting a full-scale invasion of Lebanon.

We had first the bombing and occupation of Lebanon over the last 30 days and finally, this past weekend, the massive invasion of Lebanon. We submit that Israel must be held accountable for the policies it pursues.

Until and unless the United States can devise and implement a mechanism which will reduce or suspend military aid to Israel if it pursues military policies that violate United States laws, it is to be expected that Israel will continue to violate those laws. Until and unless the United States puts Israel on notice that it will reduce economic assistance if Israel continues to establish new settlements in the West Bank, Gaza, or the Golan Heights, or "thicken" its existing ones, it is to be expected that Israel will continue to defy American wishes and ignore American condemnations of its actions.

Public Law 94-329 prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights." Segments of the Arab minority in Israel and the Arab inhabitants of the occupied territories have been subjected to a pattern of deprivation of their human rights by the Israeli Government and the Israeli occupation forces. We strongly urge the U.S. Congress to withhold economic and military aid to Israel when such rights violations occur in order to discourage Israel from continuing these unlawful policies.

Finally, Mr. Chairman, we are deeply concerned at recent efforts in the Congress to pass an amendment which would stipulate that United States economic support fund aid to Israel cannot be less than Israel's annual debt repayment obligation to the United States

The American taxpayer should not be called upon to finance such an open-ended commitment to a country whose foreign aid benefits are based more on political considerations than on merit or actual need. If such an amendment were passed, it would encourage Israel to accumulate debts to the United States unencumbered by the sobering prospects of a debt repayment burden.

In an era when the United States is retrenching on its welfare and entitlement programs to its own citizens, when Federal aid to troubled American cities such as New York and ailing American companies, including Chrysler, is met with outcries of public criticism, there can be no justification for blindly giving Israel billions of dollars of grants or forgiven loans—or automatically extending enough aid to cover its annual debt burden—when much of that aid will be used to build illegal settlements on the occupied territories or to intimidate its neighbors. Israel cannot and should not expect to be given better treatment than the State of Wisconsin or the other 49 States of the Union.

Since the early 1970's, the U.S. Congress has sought increased responsibility in the conduct of U.S. foreign policy. America will be served in the future if responsible congressional leadership is exercised in an effort to insure that Israeli actions which are condemned by the U.S. Government and which undermine our national interests, are met with appropriate restrictions on the military and economic aid we provide Israel.

I thank you, Mr. Chairman.

[The prepared statement of James F. Sams follows:]

# PREPARED STATEMENT OF JAMES F. SAMS

FORMER PRESIDENT

NATIONAL ASSOCIATION OF ARAB AMERICANS

The National Association of Arab Americans (NAAA) is pleased to submit testimony to this Subcommittee concerning the Middle East portion of the Administration's FY 83 foreign aid request. As Americans of Arab descent, NAAA's members across the country are particularly concerned that American tax dollars are spent in such a way as to promote U.S. interests throughout the world.

American interests fall into three major categories: moral, strategic and economic. Today we intend to focus upon the Middle East and identify those aspects of the current foreign aid request which, in the judgement of our association, conflict with U.S. interests in all three of these categories.

We need not remind members of the Subcommittee that whatever levels of foreign aid assistance may be appropriated, they will reflect U.S. values and priorities and will be so interpreted by the rest of the world. The U.S. has always had a strong moral commitment toward promoting respect for human rights throughout the world and our foreign aid program has traditionally been utilized as one means of observing that commitment. Indeed, Congress has adopted legislation which prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights", and it is vital that we adhere to this legislation to preserve our credibility.

The strategic importance of the Middle East to vital U.S. interests cannot be overemphasized. The threat to world peace that is represented by further Soviet penetration and encroachment in the area has been well recognized, particularly following the Soviet invasion of Afghanistan. Further dangers have arisen as a result of events in Iran and the current Iran-Iraq war. Accordingly, it is of vital importance that U.S. policies, and, in particular, our foreign aid program, be consistent with our overriding desire to promote stability and peace in the area.

The economic interests of the United States in the region are of tremendous importance as well. It is crucial for the United States, and the free world generally, to be assured of continued access to Middle East oil resources on economically viable terms. Moreover, the extensive economic development programs of virtually all nations in the area are of deep interest to the United States. Our policies should reflect those interests and be designed to encourage trade and promote healthy economic relationships with the countries of the region.

It is apparent from the Administration's foreign aid request, that the primary beneficiaries of foreign assistance in FY 1983, as in FY 1982, will be Israel and Egypt, presumably in order to encourage their continued participation in the "Camp David process." It should be noted, however, that while the total amount of economic and military assistance proposed for Egypt and Israel is similar (approximately $2.4 billion for Egypt and $2.5 billion for Israel), aid to Israel is in reality far more generous. Under the terms of the Administration's proposals, Egypt, with a very low per capita GNP of only $480 dollars, will receive a sum of approximately $55 per citizen in FY 83, and much of that assistance will be in the form of FMS aid. Israel, on the other hand, with an extremely high per capita GNP of $4,150, and a high standard of living, will be receiving from the

American taxpayer the staggering sum of nearly $627 per Israeli citizen. There can be no justification for compelling the American taxpayer to provide each and every Israeli citizen with such massive doses of welfare when Americans are being required to tighten their belts back home. (See Appendices A and B)

This level of assistance to Israel, representing more than 30% of total U.S. foreign assistance worldwide, reflects the depth of the U.S. commitment toward Israel. We recognize that this commitment has been reiterated and restated by Congress and successive Administrations since the formation of the State of Israel. We are not here to challenge that commitment, but we do believe that limits should be drawn to the levels of support we extend to Israel when it pursues policies that run counter to the interests of the United States.

In the past year, Israel has annexed the occupied Syrian Golan Heights and it has edged ever closer to annexation of the West Bank by imposing an unpopular civil administration there, deposing popularly elected Arab officials who disagreed with Israeli policies and killing a number of Arab youths who were demonstrating against Israeli military might with stones. For the past few months, moreover, the United States has had to exercise all of its influence and diplomatic skill to prevent Israel from violating Lebanese sovereignty by mounting a full-scale invasion of Lebanon. Israel has, nonetheless, recently mounted heavy bombing attacks on Lebanon that threaten to destroy the fragile ceasefire in the region that has prevailed since July 1981.

It should come as no surprise in light of these actions and others, even to Israel's most ardent supporters, that it is Israel, not the Soviet Union, which is regarded by most Arab countries as the major threat to their security. We submit that Israel's policies are the most destabilizing element in the Middle East and that such destabilization is contrary to America's national interests.

It is appropriate for Congress to examine Israeli policies in detail and extend to Israel only that level of assistance which does not encourage or make possible continued human rights violations, illegal annexations of occupied territory and the military adventurism which has been exemplified by the destruction of a nuclear research facility in Iraq last June and the bombing of heavily populated sections of Beirut which left more than 300 civilians dead last July. The security and existence of Israel do not depend upon perpetuation of such policies, and it is in the best interest of the United States, as well as the rest of the world, that we use our influence in a positive and constructive manner to promote peace and stability and establish the closest possible relations with all states and peoples of the region.

Unfortunately, the disproportionate concentration of the Administration's FY 83 proposals upon the welfare of Israel is accompanied by a corresponding neglect of other areas of the region, particularly Lebanon and the occupied West Bank and Gaza, which are in desperate need of additional assistance and which, as events of the past year have so clearly demonstrated, are potential flashpoints for renewed escalation of violence in the Middle East. It is our belief that the low priority given to Lebanon and the occupied Arab territories in the foreign aid request under review represents a serious underestimation of the importance of these regions to the maintenance of peace in the Middle East. We urge that the U.S. Congress earmark additional funds for both Lebanon and the West Bank and Gaza as a means of contributing to the overall stability of the region and underscoring our commitment to peace.

TABLE 1.

| | Population | GNP per Capita | Total Proposed FY 1983 Aid | Aid per capita |
|---|---|---|---|---|
| Egypt | 43,444,000 | $ 480 (in 1979) | $2,400,000,000 | $ 55 |
| Israel | 3,987,000 | $4,150 (in 1979) | $2,500,000,000 | $627 |
| Lebanon | 3,086,000 | $1,070 (in 1975) (pre war) | $ 22,000,000 | $ 7 |
| Jordan | 3,248,000 | $1,180 (in 1979) | $ 95,250,000 | $ 29 |
| West Bank/ Gaza | 1,150,000 | -------- | $ 6,500,000 | $ 5.7 |

I would now like to comment on several of the specific proposals in the foreign aid request and make recommendations concerning them.

1. Lebanon

Because so many of our members are of Lebanese descent, NAAA is very much concerned with Lebanon's problems and with the amount of American aid designated to be dispersed there. A strong and stable Lebanon is a prerequisite for the achievement of a comprehensive and lasting peace in the Middle East. The United States must encourage a process by which the legitimate Government of Lebanon can become the sole guardians of peace and security in the country, thereby allowing the total withdrawal of the Arab Deterrent Forces from Lebanon. It is essential that Lebanon achieve national reconciliation so that it can reunify and extend its sovereignty and the authority of its legitimate Government up to its internationally recognized boundaries. Only a strong and united Lebanon will be able to prevent the occupation of Lebanese territory by Israeli forces. (See Appendix C)

Successive Administrations and the U.S. Congress have been acutely aware of the many problems facing Lebanon and sympathetic to the Lebanese and their plight. But the U.S. must do more to assist Lebanon in its efforts at reconciliation and reconstruction than it has been prepared to do in the past. Surely an outlay of only $15 million in FMS loans to Lebanon will do little to help the Lebanese Government "develop the capability to reduce and eventually eliminate civil conflict" in Lebanon, as the Administration suggests. Surely an ESF allotment of only $8 million to Lebanon will do little to help that government "work for restoration of essential public services and a return to normalcy of life", as the Administration hopes.

Mr. Chairman, we strongly urge the U.S. Congress to earmark a much higher amount of economic and military aid to Lebanon than the Administration proposes. We urge that $100 million be earmarked for economic reconstruction and that the Foreign Military Sales credits be set at a level of at least $100 million so that the Lebanese Army can be built to the point where it can effectively maintain security throughout the entire country.

2. West Bank/Gaza

We are concerned that Israeli policies in the West Bank and Gaza are severely undermining chances for peace. The Palestinian Christian and Muslim inhabitants of these territories, who have suffered under almost fifteen years of Israeli occupation, are in desperate need of American assistance, particularly on projects that will aid in the economic development of the region. The

Administration has proposed that $6.5 million be funneled through private and voluntary organizations (PVOs), but this total is woefully inadequate.

AID has indicated in its official proposals submitted to Congress that:

> The sizeable number of projects proposed by community groups [in the West Bank and Gaza] which are rejected or deferred by PVOs because of funding limitations indicates a substantial demand for assistance in self-help efforts which is not being met from other sources. The PVOs continue to encounter periodic difficulties in receiving clearance from the Israeli Government to proceed with individual sub-projects. . . .

In fact, however, PVOs have encountered increasingly insurmountable obstacles from the Israeli Government in administrating U.S. aid allocations. (See Appendix D)

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project anywhere in the world. It has been estimated that American PVOs could easily spend an additional $10-15 million on projects that have already had preliminary studies if funds were forthcoming. We urge that funding for the West Bank and Gaza be increased to $15 million for FY 83 and urge further that the United States Government put increasing pressure upon Israel not to put intolerable obstacles in the way of the economic development programs that the people of the West Bank and Gaza need and deserve. In an era of little official American appreciation of the Palestinian issue, the West Bank/Gaza program has come to symbolize the hope of a more constructive relationship between our two peoples.

3. Egypt

We support the Administration's proposals of economic and military aid to Egypt. Egypt is an important Arab country and a close friend of the United States. There are very positive indications that Egypt, under President Hosni Mubarak, will be reestablishing closer ties with the other nations of the Arab World now that the last portions of occupied Sinai have been returned to it. Such a development will enable Egypt to play a stronger and more constructive role in the region and should be welcomed by the United States.

4. Jordan

Jordan is a long-time friend of the United States. We need the active support of Jordan, which is committed to a peaceful resolution of the Middle East conflict on the basis of U.N. Security Council Resolution 242, in our search for a comprehensive and lasting peace in the Middle East. We endorse the Administration's proposed increase in FMS for Jordan by $25 million to a total of $75 million and also support the increase in Economic Support Funds for Jordan to $20 million.

5. Israel

We oppose the disproportionate amount of American foreign aid going to Israel in FY 83, particularly in light of the inadequate assistance that is to be provided Lebanon and the West Bank and Gaza. Although Israel enjoys the highest per capita GNP of any country in the Near East Region covered by the Administration's foreign aid proposals, it nevertheless will receive a higher amount of aid than any other recipient nation. Given Israel's already unquestioned military superiority in the region and its high standard of living, the amount of aid earmarked for Israel cannot be justified.

Beyond this, however, we submit that Israel must be held accountable for the policies it pursues in the Middle East. Until and unless the United States can devise and implement a mechanism which will reduce or suspend military aid to

Israel if it pursues military policies that violate U.S. laws, including the Arms Export Control Act, it is to be expected that Israel will continue to violate those laws. Until and unless the United States puts Israel on notice that it will reduce its economic assistance if Israel continues to establish new settlements in the West Bank, Gaza and the Golan Heights, or "thicken" its existing ones--and reduce that assistance by the amount of money spent by Israel in the pursuit of these policies--it is to be expected that Israel will continue to defy American wishes and ignore American condemnations of its actions.

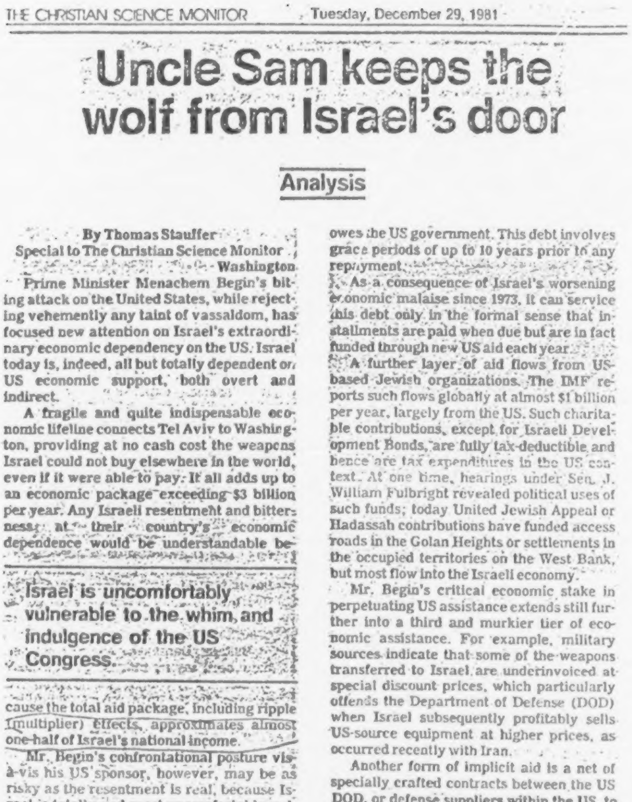
U.S. law (PL 94-329) prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights." Segments of the Arab minority in Israel and the Arab inhabitants of the occupied territories have been subjected to a pattern of deprivation of their human rights by the Israeli Government and the Israeli occupation forces. We strongly urge the U.S. Congress to withhold economic and military aid to Israel when such rights violations occur in order to discourage Israel from continuing these unlawful practices. (See Appendix E)

Finally, Mr. Chairman, we are deeply concerned at recent efforts in the Senate Foreign Relations Committee to pass an amendment which would stipulate that U.S. Economic Support Fund aid to Israel cannot be less than Israel's annual debt repayment obligations to the United States. The American taxpayer should not be called upon to finance such an open-ended commitment to a country whose foreign aid benefits are based more on political considerations than on merit or actual need. If such an amendment were passed, it would encourage Israel to accumulate debts to the United States unencumbered by the sobering prospects of a debt repayment burden.

In an era when the U.S. Government is retrenching on its welfare and entitlement programs to its own citizens, in an era when federal aid to troubled American cities, such as New York, and ailing American companies, including Chrysler, is met with outcries of public criticism, there can be no justification for blindly giving Israel billions of dollars of grants and forgiven loans--or automatically extending aid sufficient to cover its annual debt burden--when much of that aid will be used to build illegal settlements on the occupied territories or to intimidate its neighbors. Israel already received too much aid on too easy terms with too little accountability. Israel cannot and should not expect to be given better treatment than the 50 states of the United States. (See Appendix F)

Since the early 1970's, the U.S. Congress has sought increased responsibility in the conduct of U.S. foreign policy. America will be served in the future if responsible Congressional leadership is exercised in an effort to ensure that Israeli actions which are condemned by the U.S. Government and which undermine our national interests are met with appropriate restrictions on the military and economic aid we provide Israel.

Appendix A



THE CHRISTIAN SCIENCE MONITOR Tuesday, December 29, 1981

# Uncle Sam keeps the wolf from Israel's door

## Analysis

**By Thomas Stauffer**
**Special to The Christian Science Monitor**

**Washington**

Prime Minister Menachem Begin's biting attack on the United States, while rejecting vehemently any taint of vassaldom, has focused new attention on Israel's extraordinary economic dependency on the US. Israel today is, indeed, all but totally dependent on US economic support, both overt and indirect.

A fragile and quite indispensable economic lifeline connects Tel Aviv to Washington, providing at no cash cost the weapons Israel could not buy elsewhere in the world, even if it were able to pay. It all adds up to an economic package exceeding $3 billion per year. Any Israeli resentment and bitterness at their country's economic dependence would be understandable because the total aid package, including ripple (multiplier) effects, approximates almost one-half of Israel's national income.

> Israel is uncomfortably vulnerable to the whim, and indulgence of the US Congress.

Mr. Begin's confrontational posture vis-à-vis his US sponsor, however, may be as risky as the resentment is real, because Israel is totally and most uncomfortably vulnerable to the whim and indulgence of the US Congress, which must authorize or at the very least tolerate the complex and multidimensioned array of US aid programs.

South African and Canadian Jewish communities furnish some $150 million yearly to Israel; and West Germany still pays rather more than $300 million in reparations from World War II. Otherwise, the entire burden of economic support falls on the United States, covering the current balance-of-payments deficit of $5 billion.

US public aid over the last three years averaged $3 billion annually, and the 1982 expenditure may once again rise — a rare counterexample to the slashed budgets of the administration's domestic programs. Almost half of US official aid consists of grants or instantaneously forgiven loans. The remainder is added to Israel's rapidly escalating foreign debt, which now approaches $20 billion, equivalent to the unprecedented level of (almost) $5,000 per capita.

Military "sales" constitute two-thirds of the total official aid, and Congress in the Arms Export Control Act of 1976 created a special financing device in order to reduce the visibility of this aid and forestall possible public criticism.

Thus, for example, in fiscal 1980 $1 billion worth of foreign military sales were authorized for Israel's account. Immediately following the "sale," however, $500 million of the loan was canceled and the residual $500 million was added to the $7-plus billion the State Department estimates that Israel now owes the US government. This debt involves grace periods of up to 10 years prior to any repayment.

As a consequence of Israel's worsening economic malaise since 1973, it can service this debt only in the formal sense that installments are paid when due but are in fact funded through new US aid each year.

A further layer of aid flows from US-based Jewish organizations. The IMF reports such flows globally at almost $1 billion per year, largely from the US. Such charitable contributions, except for Israeli Development Bonds, are fully tax-deductible and hence are tax expenditures in the US context. At one time, hearings under Sen. J. William Fulbright revealed political uses of such funds; today United Jewish Appeal or Hadassah contributions have funded access roads in the Golan Heights or settlements in the occupied territories on the West Bank, but most flow into the Israeli economy.

Mr. Begin's critical economic stake in perpetuating US assistance extends still further into a third and murkier tier of economic assistance. For example, military sources indicate that some of the weapons transferred to Israel are underinvoiced at special discount prices, which particularly offends the Department of Defense (DOD) when Israel subsequently profitably sells US-source equipment at higher prices, as occurred recently with Iran.

Another form of implicit aid is a net of specially crafted contracts between the US DOD, or defense suppliers within the US, to support the Israeli arms industries. Secretary of State Alexander M. Haig Jr. recently intimated that these would be expanded in the future, providing critically needed cash infusions for those firms. Israel Aircraft Industries has been particularly insistent on such support and has received subcontracts for manufacturing components for the F-4 and F-15 fighters.

In another transaction, an Israeli shipping firm was accorded subsidies under the US Maritime Administration's shipbuilding program, but the precedent was quickly frozen when Burmah Oil, a British firm, applied for similar support.

Further assistance outside the formal foreign aid structure is the extensive and sustained support for Israeli universities and research institutions that is funded by the Department of Education, the National Institute of Health, and other US agencies in the form of grants and contracts. These reportedly aggregate almost $100 million per year.

The final tier of economic assistance involves special concessions on Israeli exports to the US. In spite of its high per capita income, over $3,500 per year, Israel has been specially designated as a "developing country," which accords it reduced or zero tariffs under the Generalized System of Preferences. As a result, 96 percent of its $1 billion exports to the US enter free of any tariffs.

*Dr. Stauffer is research associate at the Harvard Center of Middle East Studies.*

Appendix B

NEW YORK TIMES MARCH 28, 1982

# Foreign Aid's Purpose

### By Lee H. Hamilton

WASHINGTON — A major difficulty with our foreign assistance program is that it has largely become a mechanism for helping two countries, Egypt and Israel.

With President Reagan's request for another sizeable increase — $700 million in military assistance for Egypt and Israel — total aid for them would rise to $4.8 billion in fiscal 1983 — $2.3 billion for Egypt and $2.5 billion for Israel, the equivalent of more than $45 for each Egyptian and $630 for every Israeli. If the budget is approved, Egypt and Israel will corner some 75 percent of our foreign military sales program worldwide and some 60 percent of the economic support program. Egypt will also continue to get more than 25 percent of the food aid.

A staggering $25 billion in military, economic, and food aid will have been provided to Egypt and Israel from fiscal years 1978 through 1983. This sum is nearly one-third of our worldwide total for that period. A comparison with the budget for Southeast Asia during the Vietnam war is revealing: From 1968 to 1973, Vietnam, Laos, and Cambodia chewed up $17 billion in foreign aid — well over one-third of the total.

That Egypt and Israel have staked out huge portions of the United States' foreign aid budget is neither an argument against the aid nor the importance that we assign to their well-being. There are persuasive reasons for very high levels of military and economic assistance to both countries, but the imbalance that such amounts creates carries clear consequences for the United States' national interests.

First, our commitments to economic development in poor countries and to alleviation of suffering around the world are called into question. Given those rationales for foreign aid, as stated by every post-World War II administration, we must be uneasy with a budget that tilts so strongly toward two countries, however worthy, and shows a corresponding neglect of all others. A serious gap exists between our growing political and economic interests in the developing world and the low priority given the developing world in our foreign aid budget. The United States already is slipping badly as a donor of economic aid. Today, the United States ranks 15th among developed countries.

Second, serious problems arise in our relations with other countries. The poor nations know our attitude toward developmental assistance: they also know that Egypt and Israel receive more economic aid than do all of them combined. The imbalance breeds envy and suspicion. Notwithstanding our claims to the contrary, many countries believe that we can control those who receive so much of our aid. Other states, including North Atlantic Treaty Organization allies, find it hard to believe that they, as old friends, receive so much less than Egypt, a new friend. The high levels of assistance to Egypt and Israel are used as leverage by Spain, Greece, and Turkey when we negotiate military base agreements. There is also the danger that other countries exaggerate their security concerns because they see the United States placing such a high priority on aid to two countries that have been at war and that maintain a military footing.

Third, there are risks for Egypt and Israel. They expect enormous amounts of American aid. Each cites additional aid to the other as a reason for an increase in its own aid. Because both are so dependent on our assistance, their economies are distorted, their debts burgeon, and their need for more aid grows — if only to service their debts. This is not healthy for Egypt and Israel, nor is it in their long-term national interests. If the peace process eventually extends to other countries, they too will demand of us a large "peace dividend."

Fourth, because of this concentration of assistance, we have not begun to address adequately the world's social and economic problems. Security and stability in most countries depend as much on solutions to such problems as on military aid. If we cannot afford to fight hunger, poverty, pollution, overpopulation, disease, and illiteracy in the poor countries, we may soon face grave threats to security and stability caused, in part, by our neglect.

Congress has recognized the dilemma. In the 1970's, it directed that foreign aid clearly support programs to assist the poorest of the poor in solving social problems and stimulating self-sustaining economic growth. Budgetary constraints — the most notable are the costly Egyptian and Israeli programs and the strong emphasis on military aid — have combined to damage that mandate.

A review of our foreign aid programs is warranted. Without turning our back on Egypt and Israel, we need to rethink the purposes of foreign aid, what it can and must achieve, and whether the present distribution of aid is the best we can do.

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*Lee H. Hamilton, Indiana Democrat, is chairman of the House Foreign Affairs Committee's Subcommittee on Europe and the Middle East.*

Appendix C

**NATIONAL ASSOCIATION OF ARAB AMERICANS**

1825 Connecticut Avenue, Suite 211, Washington, D.C. 20009 202-797-7757

RESEARCH ALERT RESEARCH ALERT RESEARCH ALERT

## HIGH RISK OF ISRAELI INVASION OF LEBANON

| | |
|---|---|
| Danger to U.S.: | Threat of Renewed Mideast War<br>Escalation of Violence in the Region<br>Potential Superpower Confrontation<br>Polarization of Middle East<br>Damage to U.S. Relations with Moderate Arab States<br>Expansion of Soviet Influence in the Region<br>Efforts to Form Strategic Concensus Undermined |
| Recommendations: | Unequivocal U.S. Opposition<br>Notification of Israel that Invasion will meet with Severe U.S. Response |

A broad spectrum of evidence suggests that Israel may attempt to undermine peace efforts in the Middle East by reinitiating hostilities in the region through an invasion of Lebanon--possibly before the scheduled withdrawal from the Sinai on April 25, 1982. Israeli troop movements, statements of Arab and Israeli officials, and long standing desire by Israel for expanded water resources and additional land point to the likelihood of an imminent Israeli invasion. Such an invasion would be in contravention of the cease-fire agreement, which stipulated that hostile action between Lebanese and Israeli territories must cease.

Unequivocal U.S. opposition to an invasion of Lebanon must be expressed to Israel by the Administration and Congress before it is carried out. Israel must be notified that an invasion of Lebanon will be considered a substantial violation of the U.S. Arms Export Control Act and will be met with swift and certain U.S. response, including one or more of the following:

1. Suspension of delivery of sophisticated U.S. weaponry.
2. Placing of conditions on future economic and military aid to Israel.
3. Suspension of unexpended Foreign Military Sales (FMS) credits.
4. Denial of future FMS requests.
5. Removal of favorable FMS repayment terms.

## INTRODUCTORY PERSPECTIVE

The cease-fire in Lebanon followed an increase in military activity across the Lebanese-Israeli border from both directions. The escalation of the violence was initiated by Israel:

> "But then, last June, for reasons which had little if anything to do with the situation along the northern front, which was relatively quiet, Israel initiated a series of strikes against targets in Lebanon which escalated to a point which made American intervention inevitable. A cease-fire was negotiated, if not directly with the PLO then certainly including the PLO, putting a stopper on Israel's policy of pre-emption."

--Hirsh Goodman in
The Jerusalem Post
February 5, 1982

The information gathered in this RESEARCH ALERT indicates that renewed Israeli attacks on Lebanon are imminent. Data for analysis is presented under the following sections:

1. Statements by U.S. Government officials . . . . . . . . p.3
2. Statements by Israeli Government officials . . . . . . p.5
3. Underlying motivations for invasion of Lebanon . . . . p.8

## STATEMENTS BY U.S. OFFICIALS

Following the Israeli bombing of Beirut on July 17, 1981, which left over 300 people dead, a cease-fire was arranged to end the escalation of violence between Israel and Lebanon. The public announcement of the cease-fire was made in Jerusalem by U.S. Special Envoy Philip Habib on July 24, 1981:

> "I have today reported to President Reagan that, as of 1330 hours local time, July 24, 1981, all hostile military action between Lebanese and Israeli territory, in either direction, will cease."

--Baltimore Sun
July 25, 1981

Contrary to Israeli contentions, the cease-fire agreement, as announced by Habib, did not indicate that fighting between Lebanese factions or between Lebanese factions and the PLO came under the terms of the cease-fire. No foreign power should intervene in the situation in Lebanon. Rather, Lebanon must be able to settle its internal problems without outside interference. Commenting in that regard, State Department Spokesman Dean Fischer stated on the same day:

> "Our objective is to enable the central Lebanese Government to maintain control over all of the areas of the country that are in dispute or where violence has flared."

--The New York Times
July 25, 1981

Press reports in January and February of 1982, have warned that Israel was on the brink of invading Lebanon, even though cross border hostilities had not taken place for months. This development came only a short time after Habib returned to Washington from the Middle East and met with President Reagan on December 11, 1981. Later that day...

> Habib told reporters that all parties want a continuation of the four-and-one-half month cease-fire. He said that even those who had first resisted it have now come to feel a "general satisfaction" with the truce. "I found during my visit, and I so told the president [sic], a general desir-

ability that Lebanon should not be the centre of either military or political upheaval that would create problems throughout the region," Habib said.

--The Jerusalem Post International Edition
December 13-19, 1981

Early in 1982, Israel began to charge that the cease-fire was being violated. At the height of tensions, Israeli Defense Minister Ariel Sharon listed a number of alleged PLO "violations" of the cease-fire. Asked about this list, State Department Spokesman Dean Fischer replied:

> We don't want to characterize them by the word "violations".

--Dean Fischer
U.S. State Department
February 25, 1982

Responding the next day to warnings by Israeli Ambassador to the U.S. Moshe Arens that Israel might have "no other choice but a preemptive strike" across the border because of the alleged "violations", State Department Spokesman Dean Fischer replied:

> "Violence, from any quarter, can only exacerbate the Arab-Israeli conflict and perpetuate the difficulties faced by all concerned in that troubled part of the world. The U.S. cannot condone violent attempts to solve political problems of any kind. History has proven time and time again that violence begets violence, and no solution can be found through armed attacks in the Middle East. Ambassador Habib is in the area now on his mission to try to help strengthen the cessation of hostilities.
>
> On the issue of arms, we are opposed to any arms build-up in southern Lebanon. We are not aware of any major infusion of arms from any source since last July that could be construed as significantly altering the balance of force. Obviously, this is something we continue to watch closely."

--Dean Fischer
U.S. State Department
February 26, 1982

## STATEMENTS BY ISRAELI OFFICIALS

Israel's devotion to the cease-fire since its inception has not been consistent. Thus, on August 27, 1981, Prime Minister Menachem Begin, asserting that the PLO was adding weapons to its arsenal and contending incorrectly that this was a "violation" of the cease-fire agreement, stated that Israel would not attack PLO emplacements:

> "As long as they are silent, we won't. If they should shoot, that is a different story. But as long as they don't shoot, we won't. As I said, we would like the cease-fire to go on indefinitely."

--The New York Times
August 28, 1981

Nevertheless, a few months later Israeli Foreign Minister Yitzhak Shamir warned that:

> "Israel feels free to respond even today, and maintains its freedom of action," he said. "We will decide what to do and when to do it...We see a limit to our patience."

--The Jerusalem Post International Edition
December 6-12, 1981

Israel's conception of "freedom of action" appears to include entering Lebanese territory and violating Lebanese sovereignty, despite the cease-fire: An Associated Press report from Tel Aviv on January 20, 1982, revealed:

> Israeli forces held unusually intensive exercises with tanks and mortar weapons in southern Lebanon overnight, a spokesman for U.N. peacekeeping forces in the area said Wednesday.
>
> The United Nations Interim Forces in Lebanon spokesman said that Israeli troops had shot 40,000 rounds of small arms fire during all-night exercises in the Christian militia enclave village of Yarine and Marouahine, 14 and 22 kms east of the U.N. headquarters at Naqoura. He said Israeli forces had been exercising in the border enclave of their rightist militia allies for several weeks but that the overnight maneuvers had been "more concentrated and intensive" than in the past.

--Arab News
January 21, 1982

Israel has sought to publicize alleged "violations" of the cease-fire by the Palestinians at every opportunity, but Israeli violations go virtually unreported or are routinely denied. Reports of Israeli violations, furthermore, often fail to appear in the U.S. press. Thus, on January 24, 1982, the Associated Press reported the following:

> An Israeli warship and several gunboats opened fire on seven Lebanese fishing boats inside Lebanese territorial waters, sinking two of the unarmed craft and heavily damaging the other five, press and radio reports here said on Sunday.
>
> The Israeli military command denied the story. A spokesman Sunday refused to say if Israeli vessels had been in the area at the time.

--Arab News
January 25, 1982

It appears as if Israel is searching for a pretext to invade Lebanon.

> "Begin is waiting for an excuse to go into Lebanon," the Survey was told by one well-connected Israeli official. "He will take action if one Katyusha is fired on Kiryat Shimona," he added.

--Middle East Policy Survey
January 15, 1982

That excuse was nearly found when several men crossed into Israel from Jordan on January 30, 1982. Defense Minister Ariel Sharon indicated that Israel regarded the incursion as a violation of the cease-fire (even though it occurred 100 miles from the Lebanese border), saying:

> "The terrorist operations are conceived in Lebanon--that is where implementation begins."

--The Christian Science Monitor
February 8, 1982

Sharon and Chief of Staff Rafael Eitan had been pressing for an assault on Lebanon, according to Time magazine (February 15, 1982), for weeks. In the end, however, they were overruled by Begin.

Despite the eagerness of the Israeli government to break the cease-fire and move into Lebanon, not all Israelis were inclined to support the renewal of open hostilities. Israelis living along the border with Lebanon were urging the government not to launch a strike at Palestinians in Lebanon.

> The chairman of the Upper Galilee Regional Council, Abraham Broshi, said that if the government wanted to retaliate against the incursion it should strike into Jordan from where the infiltrators came and not into southern Lebanon. "The cease-fire along the Lebanese border has not been violated," he said.
>
> --The Christian Science Monitor
> February 8, 1982

But if the attack has been postponed, the uncertainty as to Israel's adherence to the terms of the cease-fire remains. Yosef Harif referred to a note from Begin to President Reagan:

> "Begin did not, however, say that Israel will not attack unless attacked. What he did write to Reagan, surely in accordance with his initial thinking, was that Israel will not attack (in Lebanon) unless "we are faced with a deliberate provocation."
>
> --Yosef Harif
> Ma'ariv
> February 12, 1982
> quoted in FBIS
> February 16, 1982

Asked what provocations would elicit Israeli military reaction, Foreign Minister Yitzhak Shamir replied:

> "I do not think that I have to be precise in detailing these things. This depends on our decision."
>
> --IDF Radio
> Tel Aviv
> February 12, 1982
> quoted in FBIS
> February 17, 1982

Moshe Arens, Israeli Ambassador to the United States, warned on February 25, 1982, that an alleged Palestinian buildup of arms in south Lebanon might leave Israel with "no other choice but a preemptive strike" across the border. (Los Angeles Times, February 26, 1982). He ominously added: "I would almost say it's a matter of time." (The New York Times, February 26, 1982).

U.S. officials at the State Department (see page 4) and diplomats in the Middle East disputed Arens' assertions. In a report from Lebanon, Edward Cody revealed:

> Several Western military attaches who monitor Yasser Arafat's Palestine Liberation Organization said the Israeli charges of a PLO buildup are unsupported by the amount and quality of equipment acquired by the organization's various guerrilla groups in recent months. A notable guerrilla arms buildup begun last year had trailed off after July, according to Western attaches and PLO officials.
>
> --The Washington Post
> March 1, 1982

On the other hand, Israel has not declined to send armaments to its surrogates in south Lebanon: The Washington Post reported that the Phalange Party militia in Lebanon had been...

> equipped with a limited number of Sherman tanks and the newer, more sophisticated super Sherman tanks reportedly supplied by

> Israel. The Israeli Army also has given a few super Sherman tanks to Haddad's forces in the south, U.N. observers say, but neither side's armor is very useful in the hilly border region, in the assessment of military analysts.
>
> --The Washington Post
> March 1, 1982

(The Post inexplicably failed to question whether the supplying of such tanks was in violation of the U.S. Arms Export Control Act.)

Available evidence indicates that Israel is waiting for a chance to renew hostilities despite adherence by the Palestinians to the cease-fire. Israeli allegations of a Palestinian arms buildup have been highly exaggerated in order to give a pretext for invading Lebanon and to soften the opposition of the U.S. government and American public opinion to such a move. The tragedy of this situation lies in the fact that it is in the interests of all concerned to preserve peace in the Middle East.

> United Nations officials at peacekeeping headquarters in Naqoura, only four kilometers from the Israeli border, are admittedly concerned. But spokesman Timur Goksel said that since July 28 the ceasefire "has held and there have been no firing incidents."
>
> ...
>
> U.N. sources, who declined to be identified because of the peacekeepers' role as middlemen, said both the commandos and Israel had a vested interest in maintaining the ceasefire. "The Palestinians are demonstrating responsibility and proving they can be depended upon to deliver, while Arafat demonstrated his authority over the myriad of factions fighting in the south," said one U.N. official. "The Israelis do not have to worry about their settlements in the north being terrorized."
>
> --Arab News
> February 5, 1982

## UNDERLYING MOTIVATIONS FOR INVASION

Israel contends that an invasion of Lebanon would weaken or obliterate the strength of the PLO in Lebanon. Israeli Defense Minister Ariel Sharon has calculated the repercussions of the invasion to be wide ranging. They would include the possibility of the emergence of a Palestinian state in Jordan:

> To bolster his aims, Sharon, with the backing of Foreign Minister Yitzhak Shamir, is also touting a political rationale for such a maneuver. He believes that the P.L.O. would have no place to go except Jordan, from which it was forcibly expelled in a brutal crackdown by King Hussein's military in 1970-71. With a little assistance from Israel, Sharon believes, the P.L.O. could overthrow King Hussein and establish a Palestinian state in Jordan.
>
> ...In Sharon's view, if the P.L.O. were to take over Jordan with Israel's backing, such a Palestinian state would be more cooperative than one centered on the West Bank.
>
> --Time
> March 1, 1982

Sharon's views have not been accepted by Begin, but they are important coming from such a high Israeli official. Joseph Kraft, the syndicated columnist, after meeting with Israeli officials and others, has indicated that the Israeli invasion might lead to further instability in the region, including the overthrow of Syrian President Hafez al-Assad:

> The theory is that the PLO and the Syrians would be forced to quit Lebanon, with Assad toppled from office. In that case, Syria would implode.

Joseph Kraft in
The Washington Post
March 16, 1982

It is difficult to ascertain how the toppling of either the Jordanian or Syrian Head of State would strengthen the possibilities for peace in the region or enhance Israel's security.

If Israel's military objectives in undertaking the invasion of Lebanon have been emphasized in recent weeks, its designs on the water of the Litani River in southern Lebanon have been less publicized. Thomas Stauffer reported this aspect of Israel's interest in expanding its territory:

> However, the Golan Heights are even more important in the context of Israel's future water policy as a steppingstone - quite literally - to the liberation or occupation of the southeastern corner of the Lebanon and physical control of the Litani. While estimates of the available flow from the Litani differ considerably, Israeli sources argue that a minimum of 400 million cubic meters yearly could be diverted into Israel - or as much as 700 million if the Lebanese dam upstream could be destroyed or its spillways opened.
>
> The Litani River has long been a target (since the early Zionist settlements in Palestine under the British mandate) but that target - essentially academic until recently - now adds an ever increasing urgency to the older designs upon the Litani waters.
>
> Plans for acquiring the Litani were articulated soon after Israel came into being in 1948, and the recently published diaries of Moshe Sharret reveal such Cabinet-level discussions in the mid-1950s.

--Thomas Stauffer
The Christian Science Monitor
January 20, 1982

Lebanese Minister of Information Michel Edde, stating that an Israeli assault on Lebanon was "imminent--only a matter of weeks," confirmed that Lebanon fears Israel's designs on expanded water supplies:

> He emphasized that the Israeli objectives must include moving far into the Bekaa Valley well above the Karaoun Dam because: "The waters of the Litani River are useless without control of the dam."

--The Christian Science Monitor
February 8, 1982

Appendix D

THE NEW YORK TIMES, FRIDAY, OCTOBER 3, 1980

# Israel Blocking Some Private American Aid to Palestinians

By DAVID K. SHIPLER

Special to The New York Times

JERUSALEM, Oct. 2—Several Ameri- n charitable and religious organizations helping Palestinian Arabs in the West Bank and the Gaza Strip have been running into conflict with the Israeli military government, which has blocked some of their welfare and development projects, delaying the expenditure of more than $2 million in United States Government aid funds.

Most organizations have had no serious problems, and most projects have been approved over the years as large sums have flowed into the occupied areas from the United States, Europe and Arab countries. But the Israelis accuse some of the agencies and their American personnel of displaying pro-Palestinian, anti-Israel sympathies and of using their programs to bolster radical political figures among the more than one million Arabs under occupation. The government has gone as far as to deny an American Mennonite representative, Paul K. Quiring, permission to work here; he and his family left Israel Sept. 14.

The agencies facing the worst difficulties turn the allegations around, arguing t Israel is attempting to make politi- use of humanitarian projects to reward Arab communities that have moderate leadership and punish those led by outspoken critics of the occupation, which has lasted since Israel captured the territories in the 1967 war. Some also charge that Israeli officials tend to resist those projects that have the best chance of improving economic conditions, which in turn would deter Arabs from leaving the areas.

### Israel Approved Little Aid

"There seems to be an idea that anything good for the Palestinians is bad for the Israelis," said Henry Selz, who represents American Near East Refugee Aid, the largest recipient of grants from the United States Agency for International Development. Since 1975, five agencies have received a total of $17.9 million from A.I.D., plus another $13.3 million in food for distribution.

Of a list of projects Mr. Selz submitted 15 months ago totaling $2.8 million, Israel has approved only $370,000 worth, he said. The proposals had already been accepted by Washington and by various b towns and cooperatives, which nor- ly contribute additional funds obtained from Arab countries and funneled through Jordan. No Israeli financing is required.

Mr. Selz contends that the patterns of ction reveal an Israeli preference for al welfare programs as opposed to those aimed at raising the level of economic productivity or producing highly skilled workers.

### Electricity Project Rejected

Among the projects disapproved by Mr. Selz's refugee aid organization, for example, were two American grants of $250,000 each to enable 16 villages in the Nablus and Hebron districts to expand electrical generating capacity; at present they are provided with current only after dark. The purpose was to give daytime power so light industry could be established. Israel has moved toward taking over the distribution of electricity throughout the West Bank.

The authorities also rejected plans for additional vocational training courses in Ramallah, whose Mayor, Karim Khalef, led with the Palestine Liberation Or- zation and was injured in a bombing attack in June.

In addition, a $300,000 project to equip a Hebron hospital with a major X-ray unit was turned down, Mr. Selz reported. He- 's Mayor, Fahad Kawasmeh, was de- ed from the West Bank last spring for allegedly contributing to tensions which led to a terrorist attack on Jewish settlers in the Arab city.

A $150,000 grant to help build a whole- e fruit and vegetable market in Halhoul, one of the West Bank's most productive agricultural regions, was also turned down, Mr. Selz said. Halhoul's Mayor, Mohammed Milhem, an outspoken opponent of the occupation, was also deported last spring.

### 'Always With the Radicals'

The military governor of the West Bank, Brig. Gen. Binyamin Ben-Eliezer, commented in an interview on the independent aid agencies. "They make always and always with the radicals," he said, "with the nationalists, and with those who always will be against the administration, against the military government and with the P.L.O."

"Why Halhoul?" the general asked heatedly. "Why Ramallah? Why not Bethlehem?" The Mayor of Bethlehem, Elias M. Freij, is considered comparatively moderate.

Projects in Halhoul have been difficult for other agencies as well. The Community Development Foundation, which also receives grants from Washington, was turned down by Israel on a plan to pave a rough road from Halhoul into a farming region so table grapes could be shipped to market with less bruising and spoilage, according to Thomas Neu, the foundation's representative here.

General Ben-Eliezer, invited to comment on particular projects, answered, "I prefer not to answer specifically."

"I would like to give you the whole strategy," he said. "No voluntary organization has any autonomy to do whatever it wants in this part of the world: This is a place where there is law and there is order, and this is a place where there is an administration.

### 'We Know Who Is Who'

"After 13 years of presence here," he said, "we know who is who, who needs what, to whom all this support should be given. I will say welcome. I will give you a list of at least three hundred projects [illegible]

But the private agencies are determined to avoid becoming adjuncts of Israeli authority, lest they lose credibility with the Palestinians they seek to help.

The perceived politics of a given organization bear on how it is treated by the Israelis. American Near East Refugee Aid, for example, was founded after the 1967 war by Americans of Arab descent and others with experience in the Arab world. The Anti-Defamation League of B'nai B'rith asserts that some of its officers have written, spoken and lobbied in the United States on behalf of the Arab cause.

In the last year or two, however, Mr. Selz said, such activity has been curtailed. He noted that his own credentials included 16 years with CARE and four with A.I.D. in South Asia and Africa. He said that contrary to Israeli allegations, his proposed projects here were distributed widely, not aimed mainly at towns with radical leadership.

Mr. Quiring of the Mennonite Central Committee, a group that has underwritten small self-help programs since 1950, when the West Bank was under Jordanian control, said he worked here from 1974 to 1978 without difficulty. His troubles, he said, began after Congressional testimony he gave in 1977 in which he presented a meticulously researched statement describing the encroachment of Jewish settlements on Palestinian farmland and water supplies. An expanded version was delivered to a British-Arab society in London and reprinted in several Arab publications, he said, where it apparently came to the attention of Israeli authorities.

Before returning to Israel in June, he said, he was informed by Israeli authorities that he would not be allowed to resume work here.

General Ben-Eliezer declined to discuss Mr. Quiring's case.

Appendix E

**NATIONAL ASSOCIATION OF ARAB AMERICANS**

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## TWELVE MONTHS OF ISRAELI ACTIONS WHICH PROMOTE INSTABILITY AND UNDERMINE AMERICAN INTERESTS

1. "Promoting Instability"
   FOCUS Magazine

2. Israeli Attack on Iraq's Nuclear Research Facility
   "Effects of Israeli Actions on U.S. National Interests"
   NAAA

3. Israeli Attack on Beirut
   "A Setback for U.S. Policy"
   New York Times
   "Madman For an Ally?"
   Washington Post

4. Israeli Annexation of the Syrian Golan Heights
   "The U.S. and Israel"
   New York Times
   "Basis of U.S. Position on Golan Heights"
   NAAA
   "Israel's Golan Annexation"
   NAAA

5. Israeli Repression on the West Bank
   "Israel: Strife and Future Strife"
   Los Angeles Times
   "U.S. Reports on Israel's Human Rights Record"
   NAAA (Excerpted from the State Department's "Country Reports on Human Rights")
   "State Department Covers Up Israeli Treatment of Palestinians"
   NAAA
   Letter to Mr. Harry Hurwitz, Minister of Information, Embassy of Israel
   ABC News
   "Israeli Troops Kill 7-Year-Old in Arab Riot
   Washington Post
   "Why Jews Worry"
   New York Times
   "International Terrorism and Double Standards"
   Wall Street Journal

POLITICAL
focus
NATIONAL ASSOCIATION
OF ARAB AMERICANS
April 1, 1982 Vol. 5, No. 7

## Editorial

# Promoting Instability

Israeli Defense Minister Ariel Sharon, an avowed advocate of an Israeli invasion of Lebanon, has presented a shocking political rationale for reopening hostilities in the region. By striking hard at Palestinian positions in Lebanon and obliterating PLO strength there, Sharon argues, the Palestinians would be forced to flee to Jordan where, with assistance from Israel, they could overthrow King Hussein and establish a Palestinian state on the East Bank of the Jordan. With the Palestinians "content" in their own state, the argument goes, Israel would presumably be able to retain the West Bank without much opposition. Sharon's rationale, according to *Time* magazine, is reported to have the backing of Foreign Minister Yitzhak Shamir, though not of Prime Minister Begin.

Israel's search for a pretext to invade Lebanon has been well publicized in recent weeks. The advocacy by high Israeli cabinet officials of such a contrived scenario as justification for an invasion, however, is an innovation that is particularly distressing. It is troubling not only because such a scenario is patently unrealistic, but also because it demonstrates a callous and cavalier attitude towards the stability and sovereignty of its neighbors.

Israel appears obsessively afraid of any strengthening of relations between the United States and any of the friendly nations of the Arab World, and Sharon's hope that King Hussein might be overthrown should be understood in that context. When U.S. Secretary of Defense Caspar Weinberger recently indicated in Amman that he would urge President Reagan to sell more arms to Jordan and stated his belief that selling these arms would not "do any more than strengthen a good friend," a torrent of almost hysterical protests arose from Israel and the pro-Israel lobby in Washington. The focus of the controversy, as usual, was not whether Jordan had legitimate needs for the arms, or whether it was in the interests of the United States to sell them, but rather whether Israeli military superiority might be even minimally affected by the sale. Congressional opposition to the sale has already been sought by the Israeli lobby even though no sale has yet been announced.

The tragedy of the situation is that Israel has used its undisputed military superiority wrecklessly and unconscionably in recent years and it has squandered much of the good will it has enjoyed in the United States. The bombing of Baghdad, the tragic bombing of Beirut which left so many innocent civilians dead, the opposition to the sale of air-defense equipment to Saudi Arabia (and the current campaign to malign those who supported the sale), the harsh and excessive crackdowns in the occupied West Bank (including the closure of Bir Zeit University, the dissolution of the town council of El Bireh and the firing of Mayors Bassam Shaka of Nablus and Karim Khalaf of Ramallah), the annexation of the Golan Heights and the imposition of a news blackout which has brought media coverage of a strike by Syrian Golan Druze opposing the annexation to a virtual halt, and blatant attempts to prevent Egypt from improving its relations with the rest of the Arab World, have caused an increasing number of Americans to realize that Israel is not the besieged underdog that it is made out to be. It has used its unquestioned military superiority not to guarantee or encourage peace but rather to promote expansionist policies at the expense of its neighbors. The real tragedy is that Israel and its supporters cannot see the difference.

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NEWS BACKGROUND

June 1981

## EFFECTS OF ISRAELI ACTIONS
## ON U.S. NATIONAL INTERESTS

In the past two months, in the heat of an election campaign, Israel has become involved in two crises which threaten to engulf the Middle East in yet another war; two crises which will test the ability of the Reagan Administration to formulate and execute a foreign policy based upon fundamental U.S. national interests. Israel has precipitated both crises by carrying out attacks on its neighbors with American-built weapons.

The Israeli attacks on Syrian forces in Lebanon (April 28) and on Iraq (June 7) threaten to disrupt Reagan Administration efforts to maintain peace in the Middle East and find a comprehensive solution to the problems confronting Israel and its Arab neighbors. Unless the United States can pursue a firm and consistent policy of restraint on Israel, these attacks will serve only to confirm Israeli and Arab perceptions that no matter what Israel does to its neighbors in the name of self-defense, no matter how disruptive of U.S. interests, goals and policies in the Middle East Israel's actions may be, no matter how brazenly Israel flaunts U.S. laws, including the Arms Export Control Act, and international law, little or no concrete disciplinary action will be taken by the United States. The fact that Israel carried out the raid on Iraq without even informing the U.S. in advance is more than an embarrassment to our government--it indicates that Israel has become so complacent in its relationship with the U.S. that it feels it can pursue any policy it chooses, no matter how reckless, with impunity and without accountability to the United States or the world.

It is precisely this perception by Israel of its non-accountability that is contrary to U.S. fundamental national interests. The Israeli attacks on Syrian forces in Lebanon and on Iraq have had profound negative repercussions on U.S. national interests. Among these repercussions are the following:

1. U.S. prestige has been damaged. Third world nations sincerely believe that the U.S. could prevent Israeli attacks on neighboring countries if it would apply pressures on Israel. It is incomprehensible to them (and to many Americans) that the U.S., which provides Israel with vast amounts of economic and military aid, and which keeps the Israeli economy afloat, cannot restrain Israel from attacking its neighbors. The U.S. is held responsible for Israeli actions even as it appears powerless to prevent them. In supporting Israel in the U.N. even after the most reprehensible violations of international law, the U.S. loses prestige in the international community as well.

2. Relations with U.S. allies in the Arab World have been weakened. The widespread perception that the U.S. condones Israeli adventurism, even when in fact it does not, has tended to alienate the U.S. from its allies in the Arab World, such as Saudi Arabia and Egypt, and has soured promising improvements in relations with other Arab nations, such as Iraq, which had poor relations with the U.S. in the past. The U.S. cannot consider Israel to be its only ally in the Middle East; it cannot allow itself to be alienated from its Arab allies.

3. U.S. peace efforts in Lebanon have been undermined. Israel mistakenly believes that it is in its interests to keep Lebanon fragmented

and unstable. Unlike Syria, Israel has never been invited into Lebanon by the legitimate Lebanese government. Instead, it has chosen to support efforts by Lebanese factions to partition Lebanon. Israeli strikes at targets in Lebanon (usually with U.S. weapons) have had the effect of undermining promising internal Lebanese peace negotiations. Moreover, the attacks on Iraq and on Syrian forces in Lebanon have brought the negotiations that are being conducted by U.S. Special Envoy Philip Habib to the brink of failure.

4. The Camp David peace process has been threatened. Egypt has characterized the Israeli attack on Iraq as an "irresponsible and unjustifiable crime". The attack was an embarrassment to Egyptian President Anwar al-Sadat and has further isolated him from his Arab brothers. The attacks will almost certainly end all hope of bringing other Arab states into the Camp David framework.

5. Soviet prestige in the Middle East has been enhanced as it sides with Arab nations in the U.N. while the U.S. alone stands with Israel. The Israeli attacks have dealt another blow to the Reagan Administration's efforts to persuade Arab nations that the Soviet Union is the greatest threat in the Middle East. The U.S. is thus prevented from forming a "strategic consensus" to counter Soviet influence.

6. The raid on Iraq has set a precedent that could be used by other nations as justification to prevent the spread or alleged spread of nuclear capabilities in the Middle East and elsewhere. It is ironic that Israel, which has never signed the Nuclear Non-Proliferation Treaty and which does not allow international inspection of its nuclear facilities at Dimona, should bomb Iraq, which has been a signatory to the Treaty and has allowed international inspection.

Rather than exacerbating the tensions in the Middle East by attacking its neighbors at will, Israel should be seeking ways of reconciling with them. Repeated violations of their sovereignty is not in the national interests of the United States or, ultimately, of Israel. The U.S. can show its truest friendship for Israel by convincing it of the need for self-restraint and by dealing firmly with it when it transgresses the boundaries of legitimate self-defense. A genuine peace in the Middle East will only be achieved when the spiral of violence and resentment is broken.

The New York Times July 18, 1981

# A Setback for U.S. Policy

## *Attack on Beirut Disrupts American Plans For a New Diplomatic Offensive in Mideast*

By TERENCE SMITH

Special to The New York Times

WASHINGTON, July 17 — The Israeli air strikes in Beirut today disrupted the Reagan Administration's plans for what it hoped would be the most intensive and productive several weeks of Middle East diplomacy since the inauguration.

**News Analysis**

With the Israeli elections over and President Anwar el-Sadat of Egypt due here in less than three weeks, the Reagan policy makers had ambitious hopes of reviving the stalled talks on Palestinian autonomy and building upon the Camp David framework. They hoped to have, with luck, some new initiatives to propose to Prime Minister Menachem Begin when the Israeli leader arrives here in early September.

Officials said that the first step in clearing the air for this diplomatic offensive was scheduled for this morning, when the State Department was to announce a formula under which the United States would resume sending F-16 jets to Israel. The shipments were suspended after the June 7 Israeli attack on an Iraqi nuclear reactor.

Instead, the Administration was forced to postpone that announcement and issue a statement deploring the "intensified violence" on both sides of the Lebanese-Israeli border and calling for a cease-fire.

### 'A Mockery of Any Statement'

"The air strikes made a mockery of any statement we could have released today about the F-16's," a frustrated State Department official said. Instead of mentioning the planes, the Administration announcement said that Philip C. Habib, the special Middle East envoy, would immediately fly to Israel from Saudi Arabia to begin talks on a cease-fire.

It was the second time in less two months that Mr. Begin had embarrassed the Reagan Administration by using American-provided weapons in deep-penetration raids against Arab targets. The raid against the Iraqi reactor was undertaken by F-16's. The Beirut authorities are reported to have photographic evidence that American-built F-4's were used in today's attack, but this has not been confirmed. However, the United States provides munitions and electronic devices that are routinely used by Israel. Today's raid, like the bombing of the Iraqi reactor, led to calls for an economic boycott of the United States by the Arab world and accusations of collusion between the United States and Israel.

### Wider Fighting Feared

If nothing else, the Israeli raids greatly complicated the Administration's efforts to present itself as an "honest broker" in the Middle East negotiations. They also further isolated Mr. Sadat, who issued a statement today condemning the Beirut attacks.

Some American officials expressed concern today that the Israeli strikes in Beirut would prompt a Syrian response that could lead to wider fighting. With the Egyptian-Israeli peace treaty in effect, full-scale war seems unlikely, the officials said. But they said that the treaty did not preclude a "war of attrition" along the Israeli-Syrian border similar to the artillery and air duels across the Suez Canal in 1969 and 1970.

Mr. Habib's first task will be to do everything possible to contain the fighting. Officials said today that they assumed he would attempt to extract a pledge of restraint from Mr. Begin in Jerusalem and then fly to Damascus for discussions with President Hafez al-Assad of Syria.

In addition, the United States will have to prepare a strategy for the special session of the United Nations Security Council requested by Lebanon after the raid. Although a preliminary discussion of the attack is scheduled for this evening, the Council is not expected to begin negotiations on a resolution until next week.

### U.S. Likely to Veto Sanctions

In a situation similar to the one after the raid on the Iraqi reactor, the United States will find itself confronting demands for sanctions against Israel. State Department officials predicted tonight that Washington would veto any proposed sanctions, but would consider voting for a moderately worded resolution condemning the violence on both sides of the border.

Whatever the outcome, the Administration's Middle East policy makers will have a sharply different agenda over the next few weeks from the one that they had anticipated. Instead of building a basis for new negotiations, they will be putting out diplomatic fires.

As for the F-16's, the Administration is committed to making a decision by Tuesday, when the next shipment of six of the aircraft is scheduled to leave for Israel. That deadline may have to be postponed, however, if the diplomatic furor over today's air strikes is still raging.

THE WASHINGTON POST

WEDNESDAY, JULY 22, 1981

*William Raspberry*

# Madman For an Ally?

It's hard to guess what Israel's Prime Minister Menachem Begin hopes to achieve by his latest wave of violence.

When he ordered the bombing of Iraq's fledgling nuclear facility, the initial explanation was that it was to prevent the Iraqi government from developing atomic bombs with which to attack Israel. He claimed to know for certain that the facility included a subterranean plant for the manufacture of nuclear weapons.

News reports were full of stories that Iraq's Arab neighbors were secretly glad the installation had been destroyed—that they had even acquiesced in the violation of their air space by the Israeli bombers—because they thought Iraq to be more of a threat to peace than Israel.

Subsequent announcements by those in a position to know—including the French, who built the facility—revealed there was no such bomb factory, and that there existed explicit agreements to prevent one from being built. Then the Saudi government, supposedly among those secretly glad Arab neighbors, announced that it would finance the rebuilding of the facility.

Thus the official Israeli explanations fell flat, leaving as the reigning explanation for the attack, the likelihood that it would give Begin an edge in his excruciatingly close bid for re-election.

Now, before the political and diplomatic dust from that raid has settled, Israeli planes have bombed Beirut, and again we are trying to guess his motives.

Retaliation for a rocket attack near the Lebanese-Israeli border in which three people were killed? That hardly seems plausible, considering that the toll of the Beirut attack was something like 300 dead and 800 wounded. Even for Begin, whose guiding principle seems to be two eyes for a tooth, a 300-to-one ratio seems excessive.

An attempt to pressure the Lebanese into denying haven for Palestine Liberation Organization terrorists? Surely the failure of that policy must be manifest by now.

Then what? The Palestine Congress of North America calls it "Begin's war of genocide against the Palestinians." Even many of Israel's friends in the United States acknowledge that the raids were excessive. What does Begin hope to accomplish?

It must be clear, even to those who love Israel, that Begin's bloody policies are dangerous, not just for the United States but for Israel itself. That tiny country, surrounded as it is by enemies, cannot hope to survive forever on the basis of U.S.-supplied military might alone. At some point, it will have to try to make peace with its neighbors or wind up isolated in the world. That peace must, it seems equally clear, entail negotiations with the PLO, with a view toward establishing a homeland for the Palestinians whose homelessness is a direct result of the establishment of Israel.

Egypt's Anwar Sadat gave Israel its big chance for peace when he went to Israel in November 1977, in an attempt to break the psychology that had rendered Israeli-Arab negotiations virtually impossible. But instead of using the Sadat statesmanship as an opportunity for peace, Begin used it to take the Egyptian Army out of the Middle East equation. If that caused immense difficulties for Sadat among his Arab brothers, Begin seemed not to care.

Begin's latest adventurism may be his most dangerous—for Israel. The signs are everywhere that the American people are growing tired of supporting a bully. The impatience with Begin will, sooner or later, translate into impatience with Israel. When that time comes, Israel's troubles may well be irreversible. Nor will it help, in that event, to point out that the PLO must accept a major share of the blame for the hostilities in the Middle East.

The crucial fact, for U.S. policy, is that Israel's terrorism is U.S.-supplied and U.S.-financed. The planes that bombed Baghdad and Beirut were F-15s furnished by the United States on the condition they would be used for defensive purposes only. Already, the Palestinians—and not just the PLO—are making the case that the failure of the United States to take strong action against Israel for violating the terms of the arms agreements amounts to a tacit complicity of the United States in Begin's madness.

The question of what Begin hopes to accomplish by his newest adventures is, so far as U.S. policy is concerned, largely irrelevant. The fact is that America has a madman for an ally. Either it must do what it can to restore him to sanity, or else close out the arms account that has seen the transfer to Israel of billions and billions of dollars worth of American military hardware in the past decade.

Giving blank checks to Begin is simply too dangerous a policy to continue.

THE NEW YORK TIMES December 30, 1981

# The U.S. and Israel

### By Harold H. Saunders

WASHINGTON — Israel's quasi-annexation of Syria's Golan Heights raises questions about whether Israel and the United States can still work together for peace in the Middle East.

Friendship requires friends to say straightforwardly what the expectations and limits in their relationship are. The relationship between America and Israel is dangerously strained — by Israelis who act as if the relationship is a one-way street and by Americans who will not state openly where the limits are.

The United States is rightly committed to Israel's security and well-being. But Israeli actions make us ask what kind of Israeli policies we are expected to support. Americans have a right to ask their Israeli friends what Israel really wants. Israelis have a right to ask what America will support.

Vital American and Israeli interests are at stake. On such issues, no sovereign nation can give even its best friends a blank check, or a veto over its policies.

Israeli-United States cooperation since 1967 in pursuit of Israel's security has been based on four premises that now are in question.

1. Israel's long-term security depends on its being accepted as a state in the Middle East and on peace with its neighbors.

Israel has a choice between two sets of risks. It can try to survive as a fortress, or ghetto, amid hostile neighbors in overwhelming numbers. Or it can seek peaceful and normal relations with appropriate safeguards for security.

Neither course is risk-free. But since 1967 the United States has proceeded on the premise that secure and recognized borders in a peaceful relationship are a sounder guarantee of Israel's future than expanding borders, which provide a cause for prolonged conflict.

Israeli withdrawal from the Sinai led us to believe that Israel shared this premise. Now Israel's actions on the Golan Heights and in the West Bank say to the world that the act of extending borders is more important than peace.

2. Peace must be negotiated — not imposed.

Israel has insisted since 1967 on negotiation. Washington has tirelessly argued with Arab governments that negotiating peace with Israel is the only practical way to resolve the conflict. Syria and the Palestinians have responded ambiguously.

A negotiated solution is not a winner-take-all solution. Negotiation requires settling major issues by compromise — not by imposing one side's will. How can the United States credibly argue that negotiation is the only way to resolve the conflict when Israel is imposing its solution to major issues in the West Bank and on the Golan Heights by fiat? Negotiation itself is the victim.

3. A negotiated peace requires Arab acceptance of Israel and Israel's withdrawal from territories occupied in 1967. That is the essence of United Nations Security Council Resolution 242.

For more than three decades, the issue in the area of the former mandate of Palestine has been how Arabs and Jews can live together in peace. For more than three decades, the working premise has been that the land would be divided between them.

Israelis have their state. Palestinian Arabs live under Israeli military occupation. Israeli policies in the West Bank since 1977 seem bent on permanent control. Now Israel has acted to perpetuate its control of the Golan Heights.

Can we still work from the premise that Israel will withdraw in return for acceptance and peace?

4. Israel and the United States have common strategic purposes.

We have assumed that Israel and America share an interest in strengthening moderate Arabs, who will work to minimize the Soviet position in the Middle East. How can Washington credibly persuade moderate Arabs that both sides share common objectives if America seems to support Israeli annexation of territory that the Arabs feel Israel should leave if justice is to be done?

Clarity about the premises of cooperation are vital to the health of the American-Israeli relationship. Each side must face up to reality. Are we on the same wave length or not? Clarification of these premises should have been on the agenda of the first talks between President Reagan and Prime Minister Menachem Begin, in September. It was not.

We cannot risk working from diverging assumptions much longer. Americans — official and private — are doing a "slow burn" about Israel's going its own way while expecting unlimited support. Israelis doubt whether American support is durable. If we are not honest with each other, we will see what a real crisis in the Israeli-United States relationship can be. No friend of Israel wants that.

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NATIONAL ASSOCIATION OF ARAB AMERICANS
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NEWS BACKGROUND

December 23, 1981

Basis of U.S. Position on Golan Heights

The current U.S. position on the Syrian Golan Heights, as it is on all other territory occupied by Israel in the 1967 war, including East Jerusalem, is that the U.S. will not accept or recognize any unilateral action affecting a change in status. The U.S. position is that the future of all occupied territories is to be negotiated. U.S. policy in this regard is derived from, and embodied in, several official U.S. statements, international law and U.N. Security Council resolutions, including:

- Fourth Geneva Convention, August 12, 1949.
- Charter of the United Nations.
- U.N. Security Council Resolutions 242 and 338.
- Statement by U.S. Ambassador Arthur J. Goldberg to U.N. Plenary Session, July 14, 1967.
- Statement by Jean Picker, U.S. Representative in Committee III (U.N.), on Human Rights in Occupied Territories of the Middle East, December 6, 1968.
- Statement by U.S. Ambassador Charles W. Yost in the U.N. Council, July 1, 1969.
- Statement by Rita Hauser, U.S. Representative on the U.N. Commission on Human Rights, March 20, 1970.
- Statement by U.S. Ambassador George Bush in the U.N. Security Council, September 25, 1971.
- Statement by U.S. Ambassador William W. Scranton in the U.N. Security Council, May 26, 1976.
- Camp David Accords, September 17, 1978.
- Statement by State Department, December 14, 1981, on Israel's annexation of Golan Heights.
- U.N. Security Council Resolution 497, December 17, 1981.
- Statement by U.S. Envoy to Security Council, Charles Lichenstein, December 17, 1981, explaining the U.S. position on UNSC 497.

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FOR IMMEDIATE RELEASE
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## ISRAEL'S GOLAN ANNEXATION: PRESIDENT REAGAN'S ACTION AND PRIME MINISTER BEGIN'S INTEMPERATE RESPONSE

Dr. Peter S. Tanous, NAAA Chairman of the Board, delivered the following statement at a press conference held today at the Washington headquarters of the National Association of Arab Americans:

The NAAA supports President Reagan's firm response to the illegal and unilateral annexation of the occupied Syrian Golan Heights. As Arab-Americans, we consider Prime Minister Begin's venemous and intemperate reaction to the U.S. measures, delivered to President Reagan through U.S. Ambassador to Israel Samuel W. Lewis, to be a most disgraceful insult to our President and to all Americans. Our great country, which has given so much to Israel, should not have to tolerate such disrespectful and humiliating treatment by a purported "ally".

Indeed, it is unprecedented for an "ally" of this country to resort to actions so consistently contrary to U.S. national interests or to disregard so cavalierly the most basic tenets of friendship between two nations. It is unprecedented for a "friend" of the United States to demand so much of our nation and give so little in return. It is unprecedented for a nation, which is so utterly dependent on the largesse of the United States that its economy would soon collapse without massive and incessant doses of U.S. economic assistance, to resort to such vitriolic and unrestrained invective against its benefactor. As Americans of Arab descent, we are utterly opposed to Israeli adventurism in the Middle East.

The present rift between the United States and Israel is not surprising. Since President Reagan has taken office, Israel has repeatedly resorted to unilateral actions calculated to embarrass his Administration and thwart sincere American efforts to achieve a just and comprehensive peace in the Middle East. In the past nine months, Israel has attacked Syrian helicopters in Lebanon, bombed a nuclear research facility in Baghdad, bombed innocent civilians in Beirut, vocally and bitterly opposed the sale of air-defense equipment to Saudi Arabia (a cornerstone of President Reagan's foreign policy) and resorted to repressive measures in the occupied territories, including the shooting of unarmed teenagers in the West Bank.

The annexation of the Golan Heights, therefore, is merely the latest in a series of actions which have deliberately provoked and antagonized the Reagan Administration. The U.S. response to the earlier Israeli actions has been patient and mild. It would appear, now, that President Reagan has decided that "wrist slaps" do not discourage Israel from provocative actions detrimental to U.S. interests. The firmer policy recently adopted by President Reagan is welcome indeed.

Prime Minister Begin's refusal to consult the United States and heed its advice before executing precipitous and thoughtless actions is intolerable when Israel is able to sustain a marginal economic viability only with massive doses of U.S. aid. At present Israel owes the U.S. $17 billion. Twenty percent of the $11 billion foreign aid bill which was recently approved by the U.S. Congress is earmarked for Israel. In this new foreign aid bill, $550 million in loans to Israel are "forgiven". The monies which Israel uses to repay its loans to the U.S. are actually given to Israel by the U.S. In this bill, 30 year loans are made to Israel which it does not have to start repaying for 10 years. All this at a time when a U.S. veteran cannot get a GI home loan. Israel has been urging our government to allow it to spend hundreds of millions of dollars of U.S. funds on purchases of Israeli manufactured military equipment, all this at a time when many Americans need the jobs associated with such manufacture.

In the face of the financial sacrifices American taxpayers have made for Israel, how can we be expected to tolerate such contemptuous and ungrateful behavior by

Mr. Begin. While the U.S. has no right to interfere in internal Israeli affairs, the U.S. has every right to determine how much foreign aid it will give Israel. At a time when budgeting restrictions are causing many hardships for Americans, the U.S. government has an obligation to the American people to ensure that American taxpayers are not subsidizing, through a $2.2 billion foreign aid giveaway, Israel's illegal acquisition of territory by force.

The U.N. Security Council will meet no later than January 5, 1982, to review Israel's response to the U.S.-supported U.N. Security Council resolution 497 declaring Israel's annexation "null and void". We urge the President to support whatever U.N. action is ultimately required to elicit Israeli actions on the Golan annexation which will be in compliance with International law.

We further urge that beyond the U.S. suspension of the strategic cooperation agreement with Israel (later cancelled by Prime Minister Begin) and beyond the suspension of discussions on the purchase of Israeli manufactured military equipment, President Reagan reevaluate the overall U.S.-Israeli relationship, including our massive foreign aid assistance to Israel.

The U.S. must have a relationship with an Israel which seeks a negotiated comprehensive peace in the Middle East. There can be no constructive U.S. relationship with an Israel which seeks territorial expansion through force of arms, or an Israel which seeks to humiliate Israel's great benefactor, the United States.

Los Angeles Times Friday, March 26, 1982

# Israel: Strife and Future Strife

Last Sunday night Israeli state television broadcast film of a shooting incident on the West Bank. The people doing the shooting were two Israeli settlers. The people they were shooting at were local Arabs. While the shooting was going on, Israeli soldiers looked on and did not interfere. The Israeli reporter on the story said the shooting occurred without provocation and without, so far as he could see, reason.

The broadcast created a stir in Israel, as well it should have. It typified in its way what the newspaper Haaretz has called the increasing "brutalization" of Israeli policy on the West Bank, the ever-tougher approach taken by agents of the government and civilian settlers alike.

There are now 25,000 Israelis living on the West Bank. Many of them are armed. Virtually all of them regard themselves as the legitimate inheritors of the territory, and the 900,000 Arabs who live there as interlopers. To some, bullying, vigilantism, the destruction of Arab property—all of which have taken place and been reported in Israel—are responsible tactics in support of a claim to "their" land. The settlers have the confidence that comes from being armed. They have the even greater confidence of knowing that their government stands behind them.

The strife that has shaken the West Bank in the last week is, plain and simple, the inevitable consequence of the Israeli government's undeviating drive toward outright annexation of the territory. Prime Minister Menachem Begin has never sought to hide this goal. Three years ago, in the Knesset debate over the Camp David agreements, Begin was explicit. At the end of a five-year period during which "full autonomy" was to be exercised by West Bank Arabs, Israel, he said, "shall claim (its) full sovereign rights.' The Camp David promise of full autonomy has been treated as a fiction by the Begin government in its negotiations over the political future of the West Bank. But the dream of eventual annexation of the territory to Israel has been treated as a reality.

The underpinnings for that reality are being created steadily. Each new settlement, each additional settler strengthens the hand of those who would make Israel's eastern border the River Jordan. Israeli officials talk now of having 125,000 people established on the West Bank within five years. The government controls the allocation of land and of precious water. With these controls, and with the steady spread of Israeli settlements, life can be made not only difficult but unendurable for much of the Arab population. That, of course, is the point. Israel would not stand in the way of any mass departure of West Bank Arabs.

Israelis are sharply divided over the wisdom, the practicality and the morality of what the Begin government is doing. The confidence vote in the Knesset this week on his West Bank policy was evidence of that. Begin had said beforehand that he would resign in the absence of a clear vote of support. The 58-58 vote did indeed prompt him to submit a letter of resignation to his coalition cabinet. The cabinet, firm in its conviction that political survival was preferable to honor, rejected the resignation. Without much ado, Begin was persuaded to stay on.

The only hopeful note in this episode was Begin's suggestion that new elections would probably have to be called in Israel within a year. But a year is a long time. Much can be done in only months to intensify Israel's grip on the West Bank, to alienate the local population even more, to narrow the political options open to any moderate successor government, to blur still further the vital distinction between Israel's genuine security needs on the West Bank and the theological claim of some Israelis to undisputed total ownership through Divine gift. Though the current strife will come to an end, the seeds of future strife have already been sown.

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April 1, 1982 Vol. 5, No. 7

# U.S. Reports on Israel's Human Rights Record

*Following are excerpts from the State Department's recently released* Country Reports on Human Rights Practices, *submitted to the Senate Foreign Relations Committee and the House Foreign Affairs Committee. U.S. law (PL 94-329) prohibits foreign aid to be granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights."*

## ISRAEL

Amnesty International in its 1981 annual report expressed concern about the secrecy in certain military trials under the Defense Emergency Regulations in Israel, particularly noting with concern the strict military censorship which surrounded the trial of 60 Israeli Arabs arrested in early 1981. [An Amnesty International report, as quoted by the Palestine Human Rights Campaign annual report for 1981, concluded "that there exists sufficient prima facie evidence of ill-treatment of security suspects by interrogators to warrant establishing a public inquiry," which Israel has rejected. The PHRC report also says: "Attorneys for Arab prisoners allege that non-public trials take place whenever their clients have been so injured by torture that their condition would be obvious in public courtrooms."]

Freedom of speech, with a few exceptions, is a basic right in Israel . . . all media are subject to censorship on security and military matters.

Israeli Arabs from the northern towns of Ikrit and Baram, who were evacuated from their towns during military operations in their region in 1[illegible], have not been permitted to return to their homes, despite assu[illegible]ces at the time that they would be permitted to do so.

Israel is a welfare state with a mixed economy, per capita GNP in 1979 was $4,150 ...The parallel eduction systems in Israel for Jews and Arabs, conducted in Hebrew and Arabic respectively, show a disparity in quality with greater resources per student going into the Jewish system. Nevertheless, the Arab literacy rate of 64 percent is one of the highest in the Middle East. [The literacy rate for Jews in Israel is 90 percent.]

There have been complaints that expropriations of Arab land (although subject to legal review as to purpose and amount of compensation) have been used for promoting Jewish settlement in densely Arab-populated areas. . . . Freedom House maintains in its annual report that, "Arabs are, in effect, not allowed to buy land from Jews, and Arab land has been expropriated for Jewish settlement."

## THE OCCUPIED TERRITORIES

The territories occupied in 1967 consist of the West Bank, East Jerusalem, the Gaza Strip, the Sinai Peninsula and the Golan Heights. . . . Arab fears of creeping annexation—heightened by the December Knesset decree by which Israeli laws are to be applied to the Golan Heights as if that area were a part of Israel—[are] combined with the cumulative abrasions of fourteen and one-half years of military occupation to produce continued unrest. Restrictions on Arabs with regard to building homes, establishing businesses, installing generators, or drilling wells, together with the continued establishment of new Israeli settlements and the continuing taking of Arab land—approximately [illegible] third of the West Bank is now Israeli-controlled—continued to produce widespread Arab accusations that the long-term intention of the authorities was the gradual squeezing out of the Arab population. . . . Widespread protests in December over the imposition of Israeli taxes in Gaza resulted in hundreds of arrests, and the shooting of four schoolboys (one fatally) by Israeli soldiers during a demonstration in Rafah. . . . [illegible] at least six occasions, males in villages and refugee camps have been rounded up and held outdoors for extended periods of time, apparently as a form of general punishment for security incidents. . . . Conditions in prisons housing Palestinian prisoners continue to be a problem. Overcrowding has been acknowledged by Israel prison authorities; however, no significant corrective measures were taken during 1981. . . .

On taking office in 1981, the new Israeli Government indicated its intention to eliminate some military checkpoints and abolish mass punishments in security cases. However, despite reductions in the number of checkpoints, the utilization of mass punishments continued unabated.

It was reported that arrests and detentions occasionally occurred in 1981 without prompt notification to the family.

As of September 1, 1981, there were about 2,448 non-Israeli citizen Arabs in prison for security offenses in Israel or in the territories. Of this number, four were under administrative detention. One has been under administrative detention without trial since 1975.

In contravention of the Geneva Convention, houses of individuals believed to have been involved in terrorism or security incidents or located in the vicinity of terrorist incidents have been demolished or sealed up and families displaced. In 1981, at least one home was sealed up on security grounds and at least 12 houses were demolished, with damage to neighboring houses in some cases. As a result, entire families have been rendered homeless because a member was suspected of a security offense.

The East Jerusalem press is subject to censorship, but is frequently outspoken in its criticism of Israeli policies. Editorials and news items are regularly censored or excised. Orders restricting several editors to their homes or villages have been extended, making it impossible for them to work in their offices in East Jerusalem. Distribution of the English language weekly "al-Fajr" through the Israeli Postal System has been banned since several particularly outspoken anti-Israeli articles were published during the spring of 1981. This effectively cut off foreign distribution of the paper.

Educational materials originating in Arab and other foreign countries are screened and censored for allegedly anti-Jewish and anti-Israeli content, or content which is adjudged to encourage Arab or Palestinian nationalism. At least 70 books were officially banned in 1981, bringing the total number of banned books to over 7500.

Individuals generally are not arrested because of privately held views, but membership in, or contact with, or expressed support for the aims of proscribed organizations, (e.g., the Palestine Liberation Organization or one of its constituent elements) is grounds for arrest. Display or use of the Palestinian flag or its combined colors is illegal.

Following student demonstrations in the spring of 1981, the Military Government closed several schools, including al-Najah University in Nablus, for several weeks. The Hebron Polytechnic was also closed for several months. Bir Zeit University was closed for several months. . . . Students leaving the occupied territories for multi-year studies abroad have in some cases lost their right to return as a result of nonrenewal of their travel documents. Net emigration from the occupied territories averaged approximately 15,000 per year.

The Israeli government states that is has allowed since 1967 more than 50,000 Palestinians to return permanently to the occupied territories. Several hundred thousand additional Palestinians who left during and immediately after the 1967 war have not been allowed to return.

Israeli settlement activity in the occupied territories has adversely affected the livelihood of considerable numbers of Arab residents, particularly as the result of the taking of land for settlements and for military use. Land utilized by Israel in this way amounts to approximately one-third of the entire West Bank. In many instances, those affected have had to leave farming to become day laborers. Israel has established more than 135 nonmilitary settlements in the occupied territories, excluding East Jerusalem, with a total population exceeding 24,000. Of these settlements, 17 were established in the first ten months of 1981 in the West Bank.

Many settlements are justified initially on military or security grounds; even after conversion from paramilitary to civilian administration, this justification continues to be advanced. Groups of Arab landowners, however, have won several court orders delaying settlement activity.

A further problem results from the use of a part of the West Bank's limited water resources for Israeli settlements. Israeli water control policies in the West Bank and Gaza ensure that water in the area will be available to support the development of an infrastructure of Israeli settlements in the territories. Diversion of new water resources to these settlements deprives Arab agriculture and industry of them.

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## State Dept. Covers Up Israeli Treatment of Palestinians, Says PHRC

The State Department's annual report on human rights practices in Israel and the occupied Arab territories often is strongly criticized for downplaying extreme and continuous violations of human rights. The latest annual report is, typically, a reprint of the previous year's report but with a few up-to-date additions and deletions (See On File.). At best, the report for 1981 is a cursory review.

Several groups closely monitor human rights violations in Israel and the occupied territories, including the International Red Cross, Amnesty International and the Chicago-based Palestine Human Rights Campaign (PHRC). The PHRC recently issued its annual report and charged that by means of "omissions of relevant information" and "intentional ambiguities" the State Department report constitutes a "cover-up of Israel's brutal treatment of Palestinians in the West Bank and Gaza Strip."

For example, the State Department report fails to mention the number of instances of torture reported in the Israeli press. The PHRC report says at least 41 instances of torture were reported in Israeli newspapers last year. The condition of one detainee was described by his lawyer: "He related how he was constantly beaten and shifted from hot to cold showers while in detention. He was trembling and was constantly trying to hide his head and his sex organs as if warding off possible blows." The detainee, Fayez Tarayre, 23, later died from extensive head wounds.

A report by the Israeli League for Human and Civil Rights, quoted by PHRC, describes 10 forms of torture which it alleged were routine practices during interrogation of suspects: forcing detainees to stand for hours, even days, without respite; blows to the genitals; forceful administration of mind-altering drugs; frequent beatings; spraying with stinging gas and chemicals; spitting into the mouths; burning with cigarettes; verbal abuse; threats of sexual assault; and, threats to family members.

The frequency and severity of collective punishment against Arabs is also treated lightly in the State Department report. According to the PHRC report, at least 23 Palestinian homes were demolished last year by the Israeli authorities and three sealed shut because family members were suspected of throwing stones or Molotov cocktails at Israeli military vehicles.

Last year, in violation of the Geneva Convention, Israel built 17 settlements in the West Bank, three in Gaza and four in the Golan Heights, bringing the total since 1967 to about 180, according to the PHRC report. Expropriation of Arab land is also much more serious than the State Department report implies. Last year at least 12,000 acres of privately-owned Arab land was taken by the Israeli authorities in the West Bank alone.

Another measure to force Arabs off their land is Israel's denial of water. Using Government of Israel Agricultural Department statistics, a research team for BBC Television determined that of 53 million cubic meters (MCM) of water available annually for irrigation in the West Bank, 27 MCM of water is reserved for the Israeli settlements with a population of over 20,000, leaving only 26 MCM of water for the 700,000 Arabs and irrigation. Arabs are not allowed to plant new crops that require irrigation.

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George Watson
Vice President

Dear Mr. Hurwitz:

I want to reply to your rebuttal of the "20/20" report on the West Bank Arabs which was broadcast February 4th and to some of the other questions raised concerning the preparation and content of the report.

In undertaking this report, we sought to examine how Arab residents of the West Bank viewed the Israeli military occupation and how the responsible Israeli authorities respond to specific complaints and charges raised by many residents. Through extensive research and interviews with Arab residents, we found several major areas of contention which provided the basis for our report, including the Israeli settlement policy, the fairness of military justice and security measures, Israeli policy toward the development of Arab institutions on the West Bank, and control of the West Bank water supply.

During our discussions with Israeli authorities, we sought the opportunity for an on-camera interview with a representative of the military government who could respond to the specific charges raised. Our first choice, of course, was Defense Minister Sharon, who during a lengthy meeting with our producers and correspondent, stated that he was indeed the one person who should speak to these issues. He stipulated, however, that he would not permit his interview to be intercut with those of the Arab residents who were charging the military government with mistreatment. It is ABC News policy that such prior conditions restricting the editing of a news story cannot be given. Nevertheless, we continued to urge that either Defense Minister Sharon or any other military government official, including General Danni Matt or General Ben Eleazar, agree to an on-camera interview. As the meeting ended, we were informed by General Sharon's press representative that no interview with any of the responsible authorities would be granted.

We were then left with no choice but to state at the beginning and end of the "20/20" report that Israeli officials had refused to appear on-camera to address the specific issues raised by the West Bank Arabs. We did, however, express the Israeli point of view at various points in the report as best we could.

After the responsible military officials had declined to be interviewed, Israeli representatives suggested the possibility of interviewing several other persons. None of these, however, had any direct responsibility for administration of the West Bank and therefore could not have addressed the specific issues raised by the Arab residents.

Let me now address the four specific areas covered in your rebuttal.

Land: Israeli settlements on the West Bank have been condemned by the United Nations as illegal under the Geneva Convention and by the United States government as "obstacles to peace." You concede that "occasionally" it has been necessary to confiscate privately-held land, but say it was only uncultivated land. ABC News observed in at least three settlements which we visited that cultivated land had been taken. We observed grapevines and olive trees that had been bulldozed. The report did, however, include an interview with an Israeli settler who supported the view that all lands being taken were property of the Israeli government.

According to a variety of reports based on Israeli statistics, approximately 375,000 acres or 27% of the West Bank has been transferred to Israeli jurisdiction. What we reported is that many Arab residents believe that their land, and therefore their livelihood, is being taken from them by the Israeli government. Based on statistics, interviews and our own observation, we found the Arab charges to be credible.

Finally, as you subsequently acknowledged, your rebuttal was incorrect in stating that Correspondent Tom Jarriel said "We are now witnessing the final phases of the liquidation of Palestine." That statement was made by Economist Ibrahim Mattar.

Cultural Activity: You state that four new Arab universities have been created since the Israeli occupation. You neglected to point out that three of them were built with private Arab funds and the other with U.S. Roman Catholic church funds.

We noted several times in the report the Israeli need for security, given the history of conflict in this area. The question, however, as it concerns cultural identity, is to what extent security is used as a rationale for suppressing cultural expression. We found that many Arab residents feel that security has been used as an excuse for stifling their cultural and social identity. They cite many examples of measures taken which have the effect of limiting cultural expression.

We did not report on conditions in West Bank schools, or on the numbers of teachers and pupils. Our investigation, however, found evidence of routine harassment by military authorities of Arab high schools and universities. This has been reported frequently in the Israeli press. Such harassment is often cited by Palestinian Arabs as one among many examples of how the military government impairs development of West Bank institutions.

Health: There may be some question over the size of the population served by the Ramallah hospital, but whether the Palestinian or Israeli number is used, the single baby respirator is considered inadequate under accepted medical standards.

Palestinian doctors claim that the infant mortality rate on the West Bank is 70 to 80 per thousand. Israelis claim it is far lower. Since we had no way to confirm independently either of those figures, we noted the disagreement, but used neither number. We did not assume that one set of statistics was more valid or believable than the other.

It has been pointed out that Hadassah Hospital is only 20 minutes away from Ramallah by ambulance and that it is available to West Bank Arabs. Palestinians emphasize what they say is a cultural reality: Arabs would prefer to use an Arab hospital. Hadassah is an Israeli hospital. It is also in Jerusalem which requires West Bank citizens to pass through Israeli checkpoints, and in life-threatening situations, minutes obviously count. The point made by those interviewed in our report is that Ramallah has not received the kind of financial support it needs from the Israeli government in order to provide adequate care to those it is intended to serve. As stated in our report, Israeli spending on health services in real terms, adjusted for inflation, has actually declined.

Water Rights: ABC News found no evidence to support the contention that Arab residents and Israeli settlers have received equal treatment over water resources. A 1980 report for the Subcommittee on Europe and the Middle East of the House Foreign Affairs Committee states that, "Since 1968, the Israeli military administration has precluded any drilling of wells for irrigation purposes by West Bank farmers." The report also states that "in the Jordan Valley, the concern apparently is to preserve a water resource that may be needed to meet the future requirements of Israeli settlements."

According to an Israeli military government study, the 17 Israeli wells on the West Bank pump 30% of the water to serve Israeli settlers who comprise only 3% of the population. Arab water supplies on the other hand, have remained the same since 1967 because, as you point out, no new Arab wells have been drilled. In addition, there is a legitimate debate over whether Israeli deep bore wells deplete the Arab water supply.

We reported that the dispute over water rights in the Jordan Valley represents "one of the most basic Palestinian charges of Israeli injustice." And we believe the example we used was a fair representation of the one-sided competition for water supplies in that area.

In summary, we have fully reexamined the "20/20" report in light of the serious allegations made in your rebuttal of it. We have concluded that our report was a fair and accurate examination of the beliefs and complaints of West Bank Arabs. We reported no charges that we felt could not be arguably substantiated. We stated the Israeli position on key points. It was unfortunate that the responsible Israeli military authorities declined to be interviewed, but that was their decision. Therefore, we must reject the charges of bias, distortion and slander made in your rebuttal.

Whenever ABC News has reported extensively on the Middle East situation, we have been condemned by one side or the other. To imply that for any reason, we have taken sides or that we have been intentionally biased is ridiculous. We stand by this report, and we stand on our record of full, fair and accurate reporting.

Sincerely yours,

George Watson

Mr. Harry Zvi Hurwitz
Minister of Information
Embassy of Israel
3514 International Drive, N.W.
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THE WASHINGTON POST Wednesday, April 14, 1982

# Israeli Troops Kill 7-Year-Old in Arab Riot

## Protests Rise On Gaza Strip

By William Claiborne
Washington Post Foreign Service

JERUSALEM, April 13—Israeli Army troops opened fire on Arab rioters in the Gaza Strip today, killing a 7-year-old boy and wounding at least 17 other persons as furious protests against an Israeli soldier's shooting rampage in a Jerusalem mosque continued to sweep the occupied territories.

In a marked escalation of the violence, Palestinian youths tried to break into an Army base near a Gaza Strip refugee camp and were driven back in a fusillade of gunfire. Four Israeli soldiers were injured, one seriously, by rocks thrown in the melee.

In the center of Gaza town, six more Palestinians were shot when Israeli troops opened fire on a rock-throwing crowd.

Gaza Mayor Rashid Shawa said it was the worst day of Arab-Israeli clashes in the territory since the riots of 1971-72, when the Israeli Army bulldozed large sections of Palestinian refugee camps in an effort to curb a wave of attacks against Israeli troops.

On another sensitive front, the Army Command announced that Israeli security forces confronted two Palestinian guerrillas who attempted to infiltrate the West Bank from Jordan early this morning and drove them back across the Jordan River. The guerrillas threw a hand grenade at the Israeli Army patrol, but there were no injuries, the spokesman said.

The infiltration, the third announced since January, came against the background of Israeli threats to retaliate against any perceived violation of the U.S.-sponsored cease-fire agreement of last July. Israel has said it regards all infiltration attempts as violations of the agreement.

About 80 Israelis, Arabs and foreign visitors have been wounded in the angry clashes since Sunday's shooting spree at Jerusalem's Dome of the Rock Mosque. Two Arab guards were killed in the Sunday rampage in which an American-born Israeli immigrant is being held.

Speaking of Gaza, Shawa said in a telephone interview today, "It's a dead man's town. There are only soldiers and jeeps and armored vehicles here. The people don't care any more. They feel they have nothing to lose by attacking the soldiers. They've reached the point of despair."

Palestinian sources and the Israeli Army Command had widely different versions of what happened this morning at the Jabalia refugee camp, where the 7-year-old boy was shot to death.

The Palestinians said a crowd of several hundred protesters marched toward the Army base at the northern edge of the Gaza Strip, waving Palestinian flags and copies of the Koran, and that when they refused to disperse, the Israeli troops opened fire, hitting at least 30 youths.

An Army Command spokesman said a crowd of Arabs stormed the small security base, climbed the fence and threw stones at soldiers inside the perimeter.

"To prevent them from breaking in, the soldiers were forced to shoot," the spokesman said. He said the youth who was killed had been standing with the protesters.

A military spokesman added that the youth bled to death in the ambulance taking him to the hospital when the vehicle was blocked by chanting demonstrators.

The spokesman said the crowd dispersed, and that the Jabalia camp, along with another refugee camp at Neseirat, were placed under curfew.

Hundreds reportedly attended the boy's funeral tonight.

Shawa said a general strike paralyzed Gaza town, and that Israeli troops tried to break the strike by forcing open the steel shutters of some shops and welding shut others as punishment.

Employes of the U.N. Relief and Works Agency, which administers 250,000 refugees in the Gaza Strip, also declared a strike for Wednesday.

Four refugee camps in the occupied West Bank also were placed under curfew following rock-throwing incidents, and the town of Halhoul, near Hebron, was also sealed off.

East Jerusalem and virtually every town in the West Bank remained deserted as a result of the second day of the commercial strike called by the Supreme Moslem Council in protest of Sunday's shooting. A man identified as Alan Harry Goodman, an immigrant from Baltimore, has been arrested in connection with the rampage.

The Moslem Council, in a press conference today, charged that more than one gunman was involved in the rampage in the Old City's Temple Mount.

Former Jordanian defense minister Anwar Nusseibeh, speaking for Sheik Saad Adnin Ami, said officials of the council had found that gunfire had been directed at Arab worshipers from more than one direction during the shooting spree.

"It is obvious from the nature of the damage that it was not only one person who fired the shots on that occasion. It is obvious from the nature of the damage that the shots came from outside the area of Haram Sharif [the Temple Mount]—from the west, from the southwest and, most significantly, from the southeast, all of which would seem to indicate that there was or must have been some sort of coordination in perpetrating this tragic incident," Nusseibeh said.

The reference to the southeast was to the Old City's Jewish quarter, which filled with Israelis immediately after the mosque shooting. Some of the Israelis were carrying weapons. Some civilians carrying rifles were seen by reporters entering the Temple Mount during the disturbances that followed the shooting inside the Dome of the Rock.

In its press conference, the Moslem Council offered no concrete evidence of a coordinated attack on the Arab worshipers or the involvement of anyone other than a single gunman. Goodman was arrested inside the mosque with an M16 rifle.

However, according to members of the family of one of the two Arabs believed to have been slain in the initial burst of gunfire shortly after 9 a.m., Jihad Ibrahim Azzizi Bader, 21, was shot at 10:30 a.m., more than an hour after the shooting erupted.

Police officials, under orders by Interior Minister Yosef Burg to impose a news blackout on the investigation, refused to comment on the chronology of the shooting episodes on the Temple Mount.

THE NEW YORK TIMES
April 19, 1982

# Why Jews Worry

### By Joseph Eger

Dear Cousin,

I am writing to you — a leader of an important Jewish organization — because I'm worried. So is every Jew I know. Israel appears to be hurtling toward disaster, and the Diaspora is not far behind, with anti-Semitism increasing alarmingly. Many Israelis are publicly searching their souls, but American Jews are largely silent. Where are their voices?

Do you remember the bullies jeering anti-Semitic obscenities and threatening us as we approached the synagogue each day in New Kensington, Pa.? The fear of non-Jews stuck in my 9-year-old belly. I had no doubt — "we" were the persecuted and just; "they" were belligerent and evil. Then came the Nazi bullies.

After the war, Israel was created, with the iron determination of "never again." Teachers and tradesmen became fighters and farmers. The world began to treat us with new respect, even with sympathy.

No longer. Today we are the bullies. In the eyes of the world, Israel is linked with the likes of South American military dictatorships, South Africa, the Moral Majority, and with an American President who is increasingly seen as being simple-minded about important human issues.

An American Israeli soldier invades one of Islam's holiest shrines and kills and wounds many. Israeli television shows armed settlers firing at Arab civilians while soldiers stand by doing nothing. "No evident reason for the shooting," says the commentator. An editorial in one Israeli paper warns of Defense Minister Sharon's tactics and deplores the killings of Palestinian teenagers. An Israeli journalist writes, "P.L.O. directives are not needed to inflame the Arab population" and to intensify Palestinian violence. A headline in an American paper recalls storm-trooper days: "Boys in West Bank Arrested at Night." Moderate mayors are summarily removed. Autonomy is labeled a mockery. Israel apparently readies an invasion of Lebanon.

What has happened to us Jews? So many Israeli policies not only violate our moral and spiritual traditions but also are self-destructive. So many actions of the Begin Government end in defeat, creating bitter enemies. Israel is more isolated than ever. Its military superiority brings little security. The Arab nations, with vastly greater populations and financial resources, are quickly catching up in arms and technology. Israeli policy is uniting a divided Arab world. A few square miles is little protection in an age when two well-placed nuclear bombs could destroy the state. Above all, the United States is proving ever more unreliable as Israel's one ally.

We Jews have disagreed over the years as to what is best for Israel and for all Jews. Certainly we can now agree on one thing — the rapid proliferation of arms in the Middle East threatens peace everywhere. Does that include arms for Israel as well as Awacs for Saudi Arabia, and advanced aircraft and missiles for Jordan and Egypt?

You would probably agree that, if Israel is to survive, there is no alternative to living in peace with its neighbors. There have been many unmistakable hints from Arafat, the Saudis, Jordan and Egypt that the Arabs would be ready to negotiate for peace and mutual security measures. Perhaps Israel should test those waters before they freeze over, initiating talks before being forced into them.

Israel's neighbors include perhaps 3.5 million Palestinians. They cannot be wished or blown away. If Arafat and his council were destroyed, other leaders would emerge — probably more hostile and violent.

A glaring reason for the failure of Camp David to achieve a comprehensive peace is the absence of Palestinian representation. Americans, with our tradition of "no taxation without representation," can understand the responses of Palestinians over this unconscionable indignity.

We Jews have a deeply ingrained complex, grounded in a virtual racial memory of tragic experience. "It's them against us. It was always so. We are the world's scapegoat. The future is bleak if not hopeless and we might as well go down fighting." Are we as a people fulfilling this suicidal prophesy by supporting Begin's policies? Instead of digging our own grave, let us instead raise our voices for survival, echoing the Jews awaiting execution during the Spanish Inquisition who intoned Kol Nidre vows to keep commitments to God, man, and the future.

You who are our leaders have the responsibility to mobilize all Jews and friends of Jews in a search for understanding with our neighbors, Arab and worldwide. American Jews must work together with our Israeli cousins to lead us from violence and death toward our age-old dreams of peace.

We have no choice. On today's shrunken world stage, what serves the Jews serves all people. What serves all people is good for the Jews, from generation unto generation.

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*Joseph Eger is director of the Symphony for United Nations.*

WALL STREET JOURNAL April 15, 1982

# International Terrorism and Double Standards

Let us start by imagining what would have happened if a Palestinian had attacked Jews at the Wailing Wall in Jerusalem last Sunday morning, opening fire with a rifle, killing two and wounding more. Let us also suppose that the police discovered pamphlets in his lair linking him to a Palestinian group in the U.S., the leader of which had recently published a book, also published in the U.S., calling for the expulsion of all Jews from Israel as currently constituted.

I can imagine a somewhat fiercer reaction than was apparent at the start of this week. One may easily envisage calls from officials in the Reagan administration, from the Congress, from heads of Jewish-American organizations and from editorial columns, urging full investigation of the "terror network" that had in all likelihood interjected the gunman into Jerusalem.

## Viewpoint

by Alexander Cockburn

Nor, we may be sure, would Prime Minister Begin have confined himself to a statement that the assassin was "a mentally ill man." It is not inconceivable that the outrage at the Wailing Wall would have been taken as the justified excuse to launch the long-awaited invasion of Lebanon, perhaps with a preliminary bombing of Beirut.

But of course it was not a Palestinian firing his rifle at Jews before the Wailing Wall, but Alan Harry Goodman, a dual U.S.-Israeli citizen, firing and killing at the Dome of the Rock. His rampage and its aftermath was certainly covered in the newspapers and on television—but in a style markedly different from that which would have obtained if the reverse situation, outlined above, had obtained.

On the simplest linguistic level, for example, I doubt if the New York Times correspondent who described Goodman being escorted by Israeli soldiers "through a howling mob of Muslims" would have written "howling mob of Jews." And in terms of narrative structure, if somehow Arab soldiers had been administering tear gas to an indignant crowd of Jews, laughing the while (which is perfectly feasible), I doubt if such hilarity would have been relegated to the 28th paragraph of a 32-paragraph story.

Yet this was the placement of the New York Times' correspondent's observation that "Just before going, one of them [Israeli soldiers] with a laugh, threw a tear gas grenade near the mosque, upwind of the main door. . . . worshippers came out coughing and wiping their eyes. One elderly man was carried to an ambulance. A few of the troops walked away laughing." (In all fairness, given the usual standards of reporting from Israel, it was startling to find such activities included in the story at all.)

Though Goodman had printed material from Rabbi Meir Kahane's movement in his lodgings, this naturally does not inculpate the Jewish Defense League or Kach Party as promoters of his attack. The Jewish Defense League is obtaining Goodman a lawyer. But one may easily imagine a more intense uproar if a Palestinian assassin had in his rooms leaflets of a movement headed by a man of Kahane's extreme views in reverse.

Kahane's recent book, "They Must Go," published by the reputable U.S. house of Grosset & Dunlap, concludes with David removing Goliath's head from his shoulders, hence symbolically humiliation from Israel. "Let us remove the Arabs from Israel,' Kahane goes on, "and bring the redemption. THEY MUST GO." (Emphasis his.) Kahane's Kach Party in Israel ran an advertisement in the Hebrew press last year, suggesting a law be passed by the Knesset, article 2 of which proposed: "To deter those who came to seduce the daughters of Israel to desecration and assimilation we propose a mandatory jail sentence of five years with no possibility of parole. This is for any non-Jew who has sexual relations with a Jewess."

Can one imagine a major U.S. publishing house promulgating with some fanfare the work of a Palestinian, advocating legislation so reminiscent of the Nuremberg laws?

But this is to embark on more ample political and cultural contradictions. The links between Goodman and Kahane's movement consist of the leaflets, and thus people of detachment should make no further inferences about the forces motivating Goodman. Arabs should not conclude that Israeli official policy coincides with Goodman's lone sortie to the Dome of the Rock. Yet on Monday Defense Minister Sharon, citing the murder of an Israeli diplomat in Paris and the murder of a sergeant in Gaza, called for an invasion of Lebanon. With the general acquiescence of U.S. public opinion, Israeli officials make leaps in deduction and response permitted no one else.

Goodman is a joint U.S.-Israeli citizen, permitted to leave Baltimore, join the Israeli army and advance in uniform with his rifle unimpeded toward the Dome of the Rock. Such privileges for a Palestinian born in Israel or in the occupied territories are naturally inconceivable.

Under new regulations, settlers—including Gush Emunim and Kach Party members—are permitted to guard as members of the Israeli military reserve the settlements in which they reside: a well-equipped, semi-official settler army. How lonely a "bad apple" was Goodman? How much of a "fringe extremist" is Kahane, who has served in uniform in the occupied territories?

Somehow the prevailing journalistic and political laws governing discussion of "extremism" or of "terrorism" seem to be suspended when Israel or the presumptive actions of not only its settlers but of its armed forces or secret services might come under consideration.

Experts on terrorism leap hungrily on every morsel linking Palestinians, the PLO, the Libyans, the Red Brigades and so forth, in international conspiracy. Silence in this country greeted the final summing up of the Rome Court of Assize last year of the circumstances surrounding the murder of the Palestinian Wa'el Zu'aiter in Rome in 1972. On the account of Italian journalist Livia Rokach, the court found the assassination to have been carried out by "an organization belonging to the state of Israel" which "is a complex, powerful and threatening organization" which has "unlawful pre-set objectives" and constitutes a "threat to law and order." There has been further silence about reports in Italy of overtures made by the Mossad to the Red Brigades in 1973 and 1977.

But outside the swamps of international conspiracy-mongering there is almost total silence here about who exactly is provoking whom on either side of the Lebanese border. In the Christian Science Monitor for March 18, Robin Wright reported what UN officials termed "brinkmanship" by Israel: the introduction of Israeli tanks into Lebanon on January 20, with 5,000 rounds of machine-gun fire, labeled by UN observers as "intensive, excessive and provocative"; on February 8, 600 to 700 well-armed Israeli troops crossing the border in 32 buses for a training maneuver; on March 8, a border crossing by 300 Israeli military vehicles. And back on January 25, the interception by Israeli ships of seven Lebanese fishing boats inside Lebanon's territorial waters. The ships opened fire, sinking two of the fishing boats. UN officials, according to Wright, praised the PLO's "unusual restraint."

Double standards in reporting and analysis in the U.S. are not only reprehensible per se. They also foster the sort of incomprehension and miscalculation so manifest when the U.S. media and public had finally to realize that though a hero to the U.S. networks, Anwar Sadat was in his own country an unpopular and isolated figure.

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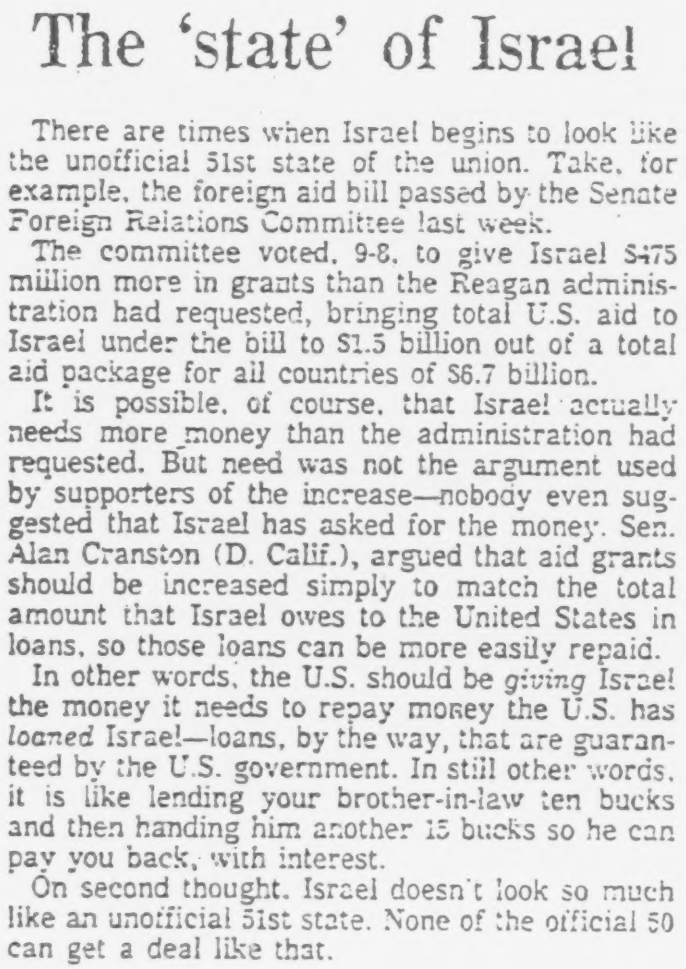
*Mr. Cockburn is a columnist for the Village Voice.*

Appendix F

THE CHICAGO TRIBUNE May 31, 1982



# The 'state' of Israel

There are times when Israel begins to look like the unofficial 51st state of the union. Take, for example, the foreign aid bill passed by the Senate Foreign Relations Committee last week.

The committee voted, 9-8, to give Israel $475 million more in grants than the Reagan administration had requested, bringing total U.S. aid to Israel under the bill to $1.5 billion out of a total aid package for all countries of $6.7 billion.

It is possible, of course, that Israel actually needs more money than the administration had requested. But need was not the argument used by supporters of the increase—nobody even suggested that Israel has asked for the money. Sen. Alan Cranston (D. Calif.), argued that aid grants should be increased simply to match the total amount that Israel owes to the United States in loans, so those loans can be more easily repaid.

In other words, the U.S. should be *giving* Israel the money it needs to repay money the U.S. has *loaned* Israel—loans, by the way, that are guaranteed by the U.S. government. In still other words, it is like lending your brother-in-law ten bucks and then handing him another 15 bucks so he can pay you back, with interest.

On second thought, Israel doesn't look so much like an unofficial 51st state. None of the official 50 can get a deal like that.

## SUBMITTED QUESTIONS

Senator **Kasten**. Mr. Sadd, thank you very much for your testimony.

We have additional questions by Senator D'Amato submitted for your response.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearings:]

## QUESTIONS SUBMITTED BY SENATOR ALFONSE D'AMATO

Question: I insist on knowing who appears before me to testify -- who they represent and who pays their salaries. Therefore, I asked my staff to check with the Secretary of the Senate where lobbying registration forms are filed by all the witness here today.

I was particularly intrigued by the report your organization filed. You seem to operate on virtually no funds, yet my office seems to get frequent mailings from your organization. You say in your forms you receive no contributions of over $500.

A few years ago, I understand your organization received a large gift from an oil company. Was that gift more than $500?

How much was the grant for? And do you receive money from other oil companies?

And this money does not assist your lobbying effort in anyway -- helping to pay the rent, buy office supplies -- helping your lobbying work?

Answer: Senator D'Amato, the National Assocition of Arab Americans is pleased to submit the following information in answer to your questions but we are quite concerned that your questions are being applied on a discriminatory basis, since your questionnaire is not a general questionnaire applied to all who testified, but rather, one that is aimed directly at the National Association of Arab Americans. We are also concerned that you have arrived at a conclusion regarding our status without even waiting for the receipt of our answers, which indicates that we have already been prejudged. We would like to be assured that you have sent similar questions to all appearing before the committee; specifically, the American Israel Public Affairs Committee; The American Lebanese League; The American Hellenic Institution Public Affairs Committee Inc.; The Population Action Council and the many others which testified.

We hope you will understand our concern that a U.S. Senator might treat us in a discriminatory manner. Questions of this nature are not customary and we are gravely concerned that they have been raised only because we are Arab Americans. We are sure that any Senate Committee or Subcommittee has the authority to ask non-discriminatory questions evenly applied to all concerned.

Your question is confusing because you claim to have seen reports filed by NAAA ("your organization"). NAAA is not registered as a lobbying organization and files no reports with the Congress. NAAA does employ several lobbyists and these lobbyists file the appropriate forms with the Congress including statements regarding their salaries and expenses.

The National Association of Arab Americans (NAAA) is a national membership organization representing the views and interests of the over 2 million Americans of Arab descent. NAAA is organized as a non-stock, membership corporation registered in accordance with the regulations administered by the appropriate state corporation commission.

The purposes of the Association are:

> To provide a national forum and structure within which U.S. citizens of Arab ancestry (Arab-Americans) and other organizations established by them of whatever nature may exchange views and formulate and implement coordinated programs and policies reflecting their interests and shared concerns.
>
> To foster through educational programs and other appropriate means, a greater awareness, understanding and appreciation among Arab-Americans of their cultural and ethnic heritage.
>
> To represent and promote before all appropriate government and private institutions in the United States the common political, economic, social and cultural interests of Arab-Americans, and to express through all appropriate means their shared concerns and views.
>
> To seek to maintain and strengthen the traditional ties of friendship and cooperation between the United States and the Arab countries.
>
> To promote greater understanding between the peoples of the United States and the Arab countries.

In 1980, NAAA initiated a project to survey the negative stereotyping of Arabs in the media. The purpose of the survey, as explained in the 1980 project proposal was: "To survey and evaluate Arab images which have appeared in newspapers, television programs, and movies. A representative sample of these images, documented as to source and distribution, will provide useful information concerning the stereotypes that are commonly found in America media. These stereotypes will be analyzed to determine the need for an anti-discrimination program in the United States. Recommendations will be made for a multidimensional program that includes educational and assessment projects."

The National Association of Arab Americans believes that in an interdependent world, there is no room for stereotypes which denigrate national character. The line separating characature and abuse may be overstepped if the media is not reminded of their responsibility to educate as well as entertain. More troubling are the causes of the receptivity to discriminatory images. Whether these causes stem from ignorance, racism, political difference, indifference, or ethnocentrism, the effect diminishes America's credibility as a leader and advocate for human decency.

The National Association of Arab Americans undertook this project as an important step toward combating negative stereotyping of Arabs in the media thus hoping to ensure a more free and open exchange of ideas concerning U.S.-Arab relations.

In the spring of 1980, the Mobil Oil Corporation, noting the importance of a project of this type, offered to provide a grant for the support of this project. Subsequently NAAA broadened the scope of the project to include a survey of stereotyping in public school textbooks and to increase the genre of media explored.

In the summer of 1981 we released a survey of the stereotyping of Arabs in textbooks in the Washington area as the first part of this program. A final draft of the media survey itself, is currently being reviewed and revised by an advisory board and NAAA hopes to publish this survey later this year.

Because of the expanded scope of the project, NAAA has devoted considerably greater financial resources than the grant provided by Mobil. We have not combined activities associated with this project with our lobbying activities. We are extremely grateful for the assistance of Mobil in helping our organization conduct this much needed survey and we are proud of this Corporation for its decision to divert financial profits towards humanitarian and educational development.

Question: Mr. Sadd, how much do the advertisements in your organization's book cost?

Do the advertisements in this book -- from American oil companies and governments like Libya and Qatar -- do these revenues help support your organization's lobbying activity?

I also notice that there appear to be some 12 pages of advertisements from PLO organizations. Do their revenues help support your organization's lobbying activities?

Answer: The National Association of Arab Americans produces several publications for which we solicit advertisements. One of these publications is our annual Convention Journal which reviews NAAA activities and contains information about our convention. Full page advertisements in this publication are usually contracted for by NAAA members and friends who wish to advertise at our convention.

NAAA also publishes an annual Middle East Business Survey (MEBUS). This publication contains information about economic development of the countries of the Arab world. It provides an informative country-by-country analysis of U.S.-Arab economic cooperation.

NAAA believes it will benefit both the United States and the Arab world if this economic partnership continues to grow. NAAA promotes a stronger U.S. economic relationship with the Arab world because increasing exports will have a positive effect on our attempts to balance the budget, eliminate our trade deficit, increase industrial productivity, and bring the United States back to its position of leadership in international trade.

In this regard, we also sponsor annual trade seminars and other programs promoting U.S. exports to the Middle East. NAAA hopes that its activities in this regard can, in some small way, fill the void of understanding that exists in the U.S.-Arab trade relationship.

NAAA operates its publication and advertising efforts to achieve positive cash flow by printing a quality advertising medium. We welcome advertisements from any and all legitimate advertisers. These advertisements have no effect on the editorial policy of the publication, just as advertisements in the Washington Post have no effect on that publication's editorial policy. The PLO ad to which you referred is actually an advertisement of SAMED, an important element of the Palestinian public sector which provides services in the economic, commercial and industrial fields.

Question: With all this money coming in from foreign sources -- tens of thousands of dollars -- I honestly feel that your organization shouldn't be registered with Congress, you should be registering down with the Justice Department's Office of Foreign Agents.

Answer: Senator, as we have said above, we are concerned that you have arrived at a conclusion regarding our status without even waiting for the receipt of our answers, indicating you have prejudged us. The National Association of Arab Americans is a national membership organization which represents Americans of Arab ancestry. These United States citizens are the people I represent when I appear before you to testify on U.S. Middle East policy. Our policy is determined solely by our 60 member Board of Directors. To suggest that our organization should be registered with the Justice Department's office of Foreign Agents is to make a mockery of the principle element of the Democratic process which confers the responsibility upon individual citizens who have convictions about what U.S. Government policy should be to ensure that their views are considered by American legislators. NAAA will continue its efforts on behalf of its members to ensure our voices, calling for an even-handed U.S. Middle East policy which serves United States interests, will be heard by Congress.

## NATIONAL DEMOCRATIC POLICY COMMITTEE

### STATEMENT OF STEPHANIE EZROL, NATIONAL DEMOCRATIC POLICY COMMITTEE

#### ACTIVITIES OF NDPC

Senator KASTEN. Stephanie Ezrol, representing the National Democratic Policy Committee. We are pleased to have you with us today.

Ms. EZROL. Thank you very much, Mr. Chairman.

Let me state first a little bit about who I am representing, and then I can summarize some of what I have submitted in my written testimony.

The National Democratic Policy Committee is an independent political action committee which was established by Lyndon LaRouche in the summer of 1980, after his failed bid in the Democratic Party presidential primaries.

We are currently the fastest growing political action committee within the Democratic Party. We are composed of 16,000 dues-paying members with roughly 600 chapters in all 50 States. That is a growing membership. I think the membership has doubled over the last 3 months, and I expect it to continue doubling at that rate.

Now, I can also say in a certain sense I represent the 150,000 voters who recently voted for the long-shot candidate we supported in the Democratic gubernatorial primary in Pennsylvania. Our candidate, Stephen Douglas, who coordinated Mr. LaRouche's presidential campaign in 1980 in the State of Pennsylvania, got 35 percent of the vote in the city of Philadelphia in his primary bid, and 20 percent of the vote statewide in the Democratic primary.

So, I am speaking for those people. I am speaking for people who have basically agreed on a four-point program to end what we have considered the worst economic crisis this country has faced since the Great Depression of the 1930's, and most of those points are very relevant to the kind of foreign policy proposals I am making.

#### NDPC PROPOSALS

Very briefly, the proposals are:

One, the absolute necessity of the United States to monetize its gold reserves at $500 an ounce in order to set up a gold reserve system to replace the International Monetary Fund.

The second step is the development, both domestically and internationally, of nuclear energy and the construction of a 100 billion watts of nuclear energy-producing capacity between now and 1987, and at an accelerating rate beyond that. We have noted that that kind of nuclear energy program will create at least 2½ million jobs in the private sector which is the kind of high-paid, high-skilled jobs that the American economy desperately needs.

The third point in our program is increased water and transportation projects in the United States.

The fourth point in our program is increased world trade and investment.

Now, that depends on something to replace the International Monetary Fund and the debt restructuring which will allow nations like India, Brazil, and Mexico to be markets for what could easily be between $200 billion and $400 billion annually increased world trade if there was a proper debt reorganization.

Now, the particular points I want to make on policy, I think, have been highlighted by the recent events in the South Atlantic. My policy committee—which many members of the Senate know, many Members of the Congress know—and Mr. LaRouche have been very critical of British policy. Now, we have been somewhat ridiculed for our emphasis on British influence over the United States.

Now, I would refer you to two items. I would refer people to Henry Kissinger's speech on May 10 of this year in London, at the Royal Institute of International Affairs. Now, I personally found that speech stunning in Mr. Kissinger's admission of the differences between United States and British foreign policy, and I can read you a few quotes.

Mr. Kissinger says very openly that all accounts of the Anglo-American alliance during the Second World War and in the early postwar period draw attention to the significant differences in philosophy between Franklin Roosevelt and Winston Churchill, reflecting our different national histories.

What he is reflecting there is, I think, both things that have been said by Elliot Roosevelt in his book about the postwar period and about discussions he had with his father, Franklin Delano Roosevelt, and the book that is now being released by Gen. Dwight Eisenhower's son, John Eisenhower, also on the World War II period.

Now, what Gen. John Eisenhower said recently in an interview with the New York Times is that the aims of the British and Americans differed as the British were just as anxious to defeat Hitler as they were anxious to preserve the "empire."

That the Americans felt antipathy towards the empire, and the conflicting hidden agendas colored every single strategic confrontation during the war.

Now, that brings us to the crisis in the South Atlantic where our closest allies among the OAS have been complaining about U.S. support for a British colonial policy.

Now, Mr. Kissinger in his London speech references this by saying:

> Americans from Franklin Roosevelt on belief that the United States, with its revolutionary heritage, was a natural ally of people struggling against colonialism. We could win the allegiance of these new nations by opposing and occasionally undermining our European allies in the area of their colonial dominance.

Churchill, of course, resisted these American pressures.

Now, the way Kissinger describes this is he says that Americans had a moral attitude, we actually believed that war could be eliminated. We believed that war came from certain evil institutions and evil outlooks, and that the British, being more sophisticated than we Americans, ignored that moral outlook and took instead what Kissinger called a Hobbesian outlook—a Hobbesian geopolitical outlook.

What Kissinger says is that it was to the detriment of world peace, that if American policy continued until he achieved some semblance of power in what he calls his incarnation in the National Security Council.

And he then goes on again in this London speech of May 10, 1982, to state that when he was in the NSC he briefed the British Foreign Office more closely than he briefed the State Department. He said that he worked in his negotiations with Rhodesia, he worked from a British draft with British spelling "even when I did not fully grasp the distinction between working paper and a Cabinet-approved document."

He continues throughout the document to discuss how he brought British policies into the United States. And he makes in that speech the same stunning statement that Alexander Haig made—Alexander Haig, the Kissinger protege made—in April of this year when he denounced General Eisenhower's Suez policy as one of the greatest disgraces America has ever faced.

I think Haig's denunciation of General Eisenhower and Haig's statement that General Eisenhower's policy decision in Suez, which stopped World War III, General Eisenhower, who threatened to bankrupt the British pound if the British continued in their colonial venture in the Middle East, Haig's denunciation of that, along the exact same lines that Kissinger outlined in London on May 10, represents the actual bankruptcy today of American foreign policy.

Now, what I have said in my written statement—and I can reiterate very briefly—is my policy committee's strong opposition to all population control policies. The population control policies are being dictated to us by the World Bank and the International Monetary Fund. They are not necessary.

Capabilities for growth in the countries I named, particularly India, Brazil, and Mexico, are great. They are being curtailed by the International Monetary Fund, and I would quote to you from, interestingly, a report put out by our Department of Agriculture—a book that I am sure most Members of Congress are quite familiar with—the 1981 Year Book put out by the Department of Agriculture titled, "Will there be Enough Food."

The concluding chapter in that book by Don Parlberg, former Under Secretary of Agriculture for Economic Affairs, is titled, "Enough Food—Sure, if we Don't Play it Dumb."

Now, what Mr. Parlberg says is, what he is stating, saying that there is enough food when we are finally in a period when we can eliminate world hunger, what he is countering is certain institutional problems.

Now, Mr. Parlberg lists the institutions who are taking a Malthusian policy, institutions who say that people are the problem. He lists them as the Food and Agricultural Organization to the United Nations, the World Food Council, the International Food Research Institute, the World Bank, the Overseas Development Council, and the World Watch Institute.

He further says that this Malthusian view is reflected in the Global 2000 Report of the Carter administration which is still supported by Mr. Haig and still supported by Mr. Buckley in the State Department.

The report of the Presidential Commission on World Hunger and the report of the Brandt Commission, which is supported by our own Catherine Graham of the Washington Post who is a member, and does have support of Members of the Congress.

Mr. Parlberg says that these are the institutions which are laying out this Malthusian view. He says the world is running out of resources and that these are the institutions—which I would also say reflect the British view, the British Hobbesian geopolitical view that the future of the world is colonial war, seeking after limited resources.

Now, Parlberg in his conclusion states:

> Well, there is enough food if—if we permit the markets to give farmers the price incentives they need; if we avoid subsidizing the conversion of a substantial share of high food value to low-value non-food; if we make the needed investments to develop and distribute new agricultural knowledge, and if we share with the developing nations the knowledge and experience we have gained during the past century.

Now, I add to his "ifs"—if we make the credit available at cheap enough rates and the investment in infrastructure in this Third World that will actually allow them to repay their debts and will actually allow them to use our knowledge and use our technologies.

I think if we do not take on the financial restrictions imposed by the IMF and instead play games around those restrictions, games which unfortunately are coming to the front in the Polish debt and many other questions where we are somehow taking a view that we will achieve goals in this British policy of manipulating people around their debt as opposed to what I would say is the traditional outlook of both Roosevelt and Eisenhower, and outlook which is very much in disrepute in the State Department today, as I said, by Haig's open denunciation of Eisenhower. If we resurrect the traditional American policy which Kissinger has denounced, of peace through economic stability and dissociate ourselves from the IMF and the World Bank, then we can prove the Malthusians wrong.

If we do not dissociate ourselves, the works of people like Mr. Parlberg and other people in the Department of Agriculture, and other committed American businessmen, committed American farmers, that kind of development will go to nil, if we do not dissociate ourselves from the IMF and the World Bank.

[The prepared statement of Stephanie Ezrol follows:]

## PREPARED STATEMENT OF STEPHANIE EZROL

### National Democratic Policy Committee

Thank you, Mr. Chairman. The current futility of United States foreign policy, as admitted to by Henry Kissinger in his May 10, 1982 speech at London's Royal Institute for International Affairs, is our subjugation of U.S. policy to that of the British Foreign office and from that standpoint failing to project our economic and technological power for the development of allies and potential allies.

Instead of trying to replicate "American System" style economic development as proposed by both presidents Roosevelt and Eisenhower (both deprecated by Kissinger in the above mentioned speech and by Kissinger-protegé Haig in his attacks on Eisenhower and 1956 Suez crisis), we have adopted the "Hobbesian" British geopolitical outlook.

This adoption of the British "geopolitical" as opposed to the American Judeao-Christian based "moral" approach has led to the opposite of development-based foreign aid policy, and allowed neo-Malthusian population control and population reduction objectives to seize every agency and area of U.S. Foreign policy, paralyzing some and corrupting others to evil objectives whose results in practice of securing "limited resources" are genocide of hundreds of millions of people.

U.S. policy of foreign aid to other nations, both bi-laters and multi-lateral, should be properly based on the principles originally set out in the Monroe Doctrine, which has been repeatedly affirmed in principle in United States treaty arrangements during the current century. According to that doctrine and its subsequent interpretation in practice (until the current humiliation of the U.S. under Haig's abbrogation of the Rio Treaty & Monroe Doctrine in the Malvinas crisis) the United States accepts the obligation to foster, protect and develop sovereign nation-state republics among our allies, and to build that sovereignty on the basis of maximum development of economic, technological and resulting military strength of each sovereign republic. This traditional doctrine of U.S. foreign aid of allies, sees the pursuit of economic and technological development as the community of principle among nations allied with the United States, and the United States as "primun inter pares" among those nations, whose obligations and strength is to spread its own advanced technological capabilities for the rapid economic progress of less-developed allies. Explicitly for the Western Hemisphere under the Monroe Doctrine and related subsequent treaties, and implicitly for our dealings with the rest of the world, United States foreign aid policy is to involve a firm commitment to defend all developing sovereign nations against the interference of oligarchial Neo-Malthusian forces and nations attempting to impose the principal of colonial looting upon them.

Population control as a goal of foreign policy is the diametric opposite of the traditional U.S. foreign policy commitment, as is "resource control." The promotion of criteria of population control and population reduction programs as guidelines for foreign aid and credit programs and the promotion of so-called strategic resource control as the objective of U.S. foreign economic policy, is the central evil to be combatted in every agency and program of U.S. foreign policy.

The National Democratic Policy Committee has identified the Draper Fund-Population Crisis Committee, featuring retired generals Draper, Westmoreland and Taylor, and the "Committee for the Year 2000" of George Ball, Cyrus Vance and other former officials of the Carter administration, as the elite institutions representing forces which have been acting from both inside and outside government to shape U.S. foreign policy to the ends of population reduction and resource control. These individuals and groups have redefined U.S. foreign policy as built around arraying all of the developing nations on a "triage list" according to their possession of raw materials said to be vital to the United States, and the feasibility of reducing their population and cutting back their economies to the bare essentials of extracting those resources. They have invented the terms "viable nations," "basket cases," and "can't be saved," to refer to their heirarchy of population-reduction and resource-looting prospects.

This approach to underdeveloped nations currently dominates the Department of State, the Eximbank which is directed by General Draper's son, the U.S.-A.I.D. programs, and has increasingly shaped nuclear non-proliferation policy into a denial of large-scale energy infrastructure as infrastructure because it promotes economic and population growth. The doctrine of population reduction and strategic resource control, applied to the underdeveloped sector, is simply the revival of the colonial racist doctrine of Cecil Rhodes, to the effect populations of the underdeveloped sector are unfortunately occupying and "overpopulating" areas which are seen as mere stocks of resources for the industrial nations.

Under the influence of these doctrines the U.S. will remain unable to develop stable relations or influence among developing nations, for obvious reasons. The facts of the relations between population growth and economic development are the opposite of the physiocratic doctrine. The majority of nations in the developing sector are on record as considering their rates of population growth too low for successful economic development. This has been officially submitted to the United Nations Fund for Population Activities by these nations and has been largely ignored, as it is also the view of Japan—the fastest growing economy in the developed sector in the last decade.

There have been sharp, accelerating declines in the birthrates of 75 of the 95 underdeveloped nations reporting to the U.N., and in all of the advanced nations, during the 1970s. Population control programs have been applied in many countries in the immediate context of the imposition of "credit conditionalities" by the International Monetary Fund and related agencies, conditionalities which barred investment in high-technology, large-scale modern economic infrastructure. Prevention of the development of a skilled modern industrial and scientific workforce in the developing countries has been not only the result, but the open objective of this conditionalities policy, which has been promoted to keep populations employed in labor-intensive rural projects and control their growth.

The Export-Import Bank, Formerly an instrument for promotion of high-technology U.S. capital goods exports, has had its total credit authority cut by nearly half since the beginning of the Carter administration. Carter people proposed that US

AID policy seek to sterilize 25 percent of all childbearing women in the world. During that administration U.S. aid for the development of medical-care infrastructure and pesticide control of infectious deseases was drastically cut, and the only category of foreign aid assistance which grew rapidly was aid for population control. While these policies have not been embraced by the Reagan administration and its supporters. none of them have been reversed.

The infamous global 2000 Report to the president was, at its core, simply a scenario for the continuation, unchanged, of exiting worldwide monetary and economic relations to the end of the century. The Report simply projected that the export of advanced technology capital goods to the developing Sector would remain at a standstill, and that credit conditionalities and forced economic contraction of developing nations would remain in force until the end of the century. On the basis of merely projecting these existing policies, the Global 2000 report defined literally hundreds of millions of human beings currently alive and about to be born as overpopulation, and looked forward to their elimination.

The Global 2000 Report further admitted that such population reduction was already underway, citing the lowering of birth rates in poverty-stricken areas of Africa, Asia, and latin America, and forecast declines of life-expectancies of up to six years in large developing countries by the year 2000.

A recent study has shown that the denial of nuclear power development to the underdeveloped nations has directly caused the unnecessary deaths of over 100 million people during the past 15 years in the Third World, as well as cutting economic growth and export trade of the advanced countries.The clearest example of our abandonment of the American System in foreign economic relations has been our allowing the progressive collapse of the Atoms for Peace program and its goals for spreading of peaceful nuclear technology to industrialize the entire undeveloped sector. The Fusion Energy Foundation has calculated the past 15 years' impact of the "tax against the world economy" caused by the lack of even the modest construction and export of nuclear power plants planned in the late 1960s. The world economy lost 3 percent per year in economic growth throughout the 1970s from the vastly higher costs of fossil fuels. Almost all of this impact, until the last 2–3 years, fell upon the underdeveloped countries. As oil costs escalated in the face of the lack of U.S.-backed nuclear power development plans in these countries, their economic infrastrcture deteriorated and their life expectancies fell instead of rising. The Fusion Energy Foundation study conservatively estimates that 115 million people have died as a result of poor medical care, poor nutrition, decrepit infrastructure, and continued rural living standards, who would be alive to day if the U.S. and other advanced nations had exported cheaper and more efficient nuclear power.

Senator KASTEN. Thank you very much for your statement.

Ms. EZROL. Thank you.

Senator KESTEN. Mr. Robert Basil, the chairman of the American Lebanese League, Mr. Basil?

## AMERICAN LEBANESE LEAGUE

### STATEMENT OF ROBERT A. BASIL, NATIONAL CHAIRMAN, AMERICAN LEBANESE LEAGUE

Mr. BASIL. Mr. Chairman, my name is Robert Basil, national chairman of the American Lebanese League, a nationwide nonprofit organization founded by American citizens in 1976 to promote United States-Lebanon relationships and to foster the sovereignty, security, democracy, and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization but an educational, humanitarian, and social organization with a broad national membership base representing the philosophy and ideals of the great majority of the nearly 2 million Americans of Lebanese descent.

I must today divert from my prepared text, Mr. Chairman, because it was prepared prior to the events of the last few days. So, I will merely comment extemporaneously on these events.

Today, and for the last several days, Lebanon has once again become a battleground for the warring regional forces—Lebanon, which has been a pro-West democracy, a center of culture and commerce; a model of graceful accommodation among Moslems, Christians, Druze, Jews, and those of other persuasions; Lebanon, who really never attacked any of the regional antagonists—Syrian, the PLO, or Israel. Lebanon, who indeed never attacked anyone, finds itself once again in the middle of a grave tragedy that threatens its extermination; indeed, its very future as a country.

## TRAGEDY IN LEBANON

To understand the depth of the Lebanese tragedy, I would like to give you a couple of numbers. In the hostilities in Lebanon over the last few years, 100,000 Lebanese have been killed; 150,000 wounded; 300,000 displaced; 35,000 orphaned. In a country of 2.5 million, one out of every five Lebanese men, women, and children have either been killed, wounded, orphaned, or displaced.

Lebanon has been an occupied country for the past several years. To understand the magnitude of its occupation, let me also, Mr. Chairman, give you some numbers. Since the United States is approximately 100 times bigger than Lebanon, being 240 million versus 2.4 million in Lebanon, 600,000 Palestinians, of which 50,000 are heavily armed is the equivalent of 60 million Palestinians of which 5 million are heavily armed in the United States; 35,000 Syrian troops and 600 tanks is the equivalent of 3½ troops and 60,000 tanks in the United States; 25,000 Israeli soldiers presently there is the equivalent of 2.5 million Israeli soldiers entering the United States.

So, Lebanon has been shattererd far beyond its capacity. The United States, the world's most stable democracy, would shatter under numbers like these. So, one could only imagine what has happened to Lebanon.

The American Lebanese community across the country, with all of their relatives having been under this disastrous situation for the past 7 years and now under the existing, present combative situation that is going on in Lebanon, feel very strongly for this because it is a very close tragedy.

The Lebanese community in the United States, even though it has become one of the most patriotic of all Americans in the past 50 or 60 years, is rather new. So, these are our grandfathers, and uncles, and cousins, sisters, brothers—very close relatives. So, it has a great meaning for us.

We feel that it is not only in Lebanon's interest and in the interest of justice and equity to stop this carnage that is going on in Lebanon, but it also is in the U.S. national interest.

The U.S. policy has really been one of containment over the last 7 years; that is, to contain all of the violence and instability associated with the Palestinian issue within Lebanon so that it will not spill out and contaminate the region, while the major world powers went about trying to solve the Palestinian problem.

This policy has been a disaster and a failure, not only for Lebanon for obvious reasons, but for the United States also. It is interesting to note that U.S. interests in the region have literally collapsed in the last 7 years over this containment policy.

### STRATEGIC VALUE OF LEBANON

We would submit to you, Mr. Chairman, that a strong, stable Lebanon, a resurgent Lebanon, is of strategic value to the United States for four reasons.

First. The three major extensions of Soviet policy converge in Lebanon: Syria, whose army is in Lebanon; the PLO who live in Lebanon; and Libya, whose largest political-military investment is in Lebanon.

Second. International terrorism, largely exported from Lebanon, could be brought under control for the benefit of free nations everywhere.

Third. The peace process would be helped by downgrading Syria's ability to oppose, Syria having been the major derailing factor in both the Camp David and the Saudi Arabian peace plans.

Fourth. And most importantly, defusing the volatile Lebanese flashpoint would increase regional stability and possibly help prevent a very major war from occurring, which could definitely happen right now.

We feel it is now clear that all nations of the region have motives in Lebanon that are not in Lebanon's interest and that a direct United States-Lebanon relationship should be established to realize U.S. goals within Lebanon and to the extent the Lebanese situation impacts the region.

Our task is, we feel, the United States must now move ahead very dramatically to try to correct a very bad situaton. We feel very gratified about the statements of President Reagan this morning about Lebanon, and of Secretary Haig. I would note for the record even the statement in the editorial in the Washington Post of yesterday where it asks that U.S. policy be directed to removing Israeli forces, Syrian forces, and armed Palestinians all from Lebanon.

We urge that perhaps despite the carnage that is occurring in Lebanon today, that perhaps we also have the first major window of opportunity for Lebanon and for the United States, for the Camp David peace process, and for peace in general in the region, and that is strongly supporting a revitalized, resurgent Lebanon with the removal of all armed forces from all nations from Lebanon—Syrian, Palestinian, and Israeli.

It is gratifying to note that the Israeli Cabinet, evidently in session last night, according to news reports this morning, also stated that they would strongly support the position of removing the Syrian and the armed Palestinian presence in Lebanon, and that they would not stay under those conditions.

If the United States loses this opportunity and becomes mired once again in a static policy that has existed over the last 7 years, then we feel that Lebanon will become permanently dismembered with Syria occupying major portions; with the Palestinians occupying major portions, and with Israel occupying major portions and Lebanon being really relegated to the past.

We urge the U.S. Government and this committee to take the following positions:

One, to demand the withdrawal of all armed foreign forces from Lebanon.

Two, to have the United States go on record again, guaranteeing the sovereignty and territorial integrity of Lebanon with its internationally recognized boundaries, guaranteeing the freedom and security of all the Christian, Moslems, Druze, Jewish and other communities in Lebanon.

Three, insure that free Presidential elections occur in August of 1982, which election truly reflects the will of the people rather than of the armed foreign presence in Lebanon.

Four, insure that that government is a strong government with full backing from the United States.

Five, after these steps are taken, to construct and improve a major foreign aid program to build up the Lebanese Army, to fund major reconstruction and, most importantly, to fund major humanitarian programs for rehabilitating the thousands of physically and psychologically damaged, especially the children and orphans.

This program should authorize $150 million per year for 3 years for FMS credits to build a Lebanese Army and $100 million per year for 3 years for humanitarian reconstruction programs.

Thank you very much, Mr. Chairman.

[The prepared statement of Robert A. Basil follows:]

# PREPARED STATEMENT OF ROBERT A. BASIL

CHAIRMAN

AMERICAN LEBANESE LEAGUE

Mr. Chairman:

My name is Robert Basil, National Chairman of the American Lebanese League, a nationwide non-profit organization founded by American citizens in 1976 to promote United States-Lebanon relationships and to foster the sovereignty, security, democracy and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization, but an educational, humanitarian and social organization with a broad national membership base representing the philosophy and ideals of the great majority of the nearly two million Americans of Lebanese descent.

Today I would like to discuss briefly the importance of Lebanon to the U.S., and the major U.S. Foreign Aid and Policy actions that should be considered to achieve U.S. strategic and regional objectives, and to save a friend. I emphasize both policy and foreign aid together, because in the absence of a policy change, the foreign aid programs as presented does not have much meaning.

Lebanon is a modern-day tragedy. This pro-Western democracy, a center of culture and commerce, a model of graceful accommodation among Moslems, Christians, Druze, Jews, and those of other persuasions, is in danger of being destroyed.

This year 1982 may determine Lebanon's future. Strategic, regional and local forces are in motion and culminating as the Lebanese drama unfolds.

U.S. policy over the last decade, and the climate that existed in the early 1970's when it was adopted can be summarized as follows:

1. The U.S. was pursuing detente and seeking cooperation with the Soviet Union.
2. The U.S. and the West were building ties to the Arab world for continual access to oil.
3. Security of the Persian Gulf was firm and unchallenged by Soviet or radical forces.

4. The U.S. focused on Israel and a Palestinian solution.
5. Lebanon presented a leadership that was sufficiently weak so as to permit major Palestinian intrusion, and that contributed to the deterioration of U.S.-Lebanon relationships.

Consequently, the U.S. in its post-Vietnam mood of caution, adopted a policy of containment at the urging of, and for the convenience of, all regional powers. The object of the policy was to contain within Lebanon all the violence and instability associated with Palestinian presence and not permit it to spill out into the region. Containment would be insured by placing a Syrian military lid over the resultant macabre Lebanese receptacle.

The roles were clear: regional nations remained inviolate and free of violence; major powers would bend all efforts to solve the Palestinian problem; Lebanon was to lie silent, unresisting, and suffering until the final solution. A corolary of the policy was that any resistance of the Lebanese population to the resultant and brutal occupation would be considered activist, de-stabilizing, and uncooperative. Modern day analysts call it "Damage Limitation".

It is now clear that the policy of containment has been a disastrous failure for several reasons:

1. The policy of containment presumed that physical containment necessarily resulted in political containment. The reverse has happened. In reality, the most successful political proliferation of the past several years has been PLO infiltration throughout the region threatening to topple all the moderate Arab governments, and PLO influence that now controls the United Nations General Assembly.
2. The policy of containment presumed that the shattering of Lebanese institutions would necessarily be accompanied by the collapse of Lebanese national will. Again, the reverse has happened. Never in their history has the will of the Lebanese people been stronger, galvanized by the threat of loss of freedom. Major segments of the Lebanese population are actively and militarily

resisting the foreign occupation attendant to containment policy implementation.

3. The policy of containment presumed that Arab and Syrian Peace-Keeping Forces had no other objectives but to assure stability. It is now clear that Syria's objective is political hegemony over Lebanon and that Syria has actually been the major source of upheaval and instability in Lebanon.
4. The policy of containment has permitted the regional antagonists to endlessly continue their confrontation with no incentive for resolution, because they incur no penalty within their own countries by continual conflict with each other.
5. The policy of containment has resulted in Lebanon itself becoming a critical mass, threatening to ignite the entire region.

The results are now clear. In the sanctuary of their own countries, hardly any loss of life occurred in other regional nations. In Lebanon 100,000 people were killed, 150,000 wounded, 300,000 displaced, 35,000 orphaned. In a country of 2.5 million, one out of every five Lebanese men, women and children have been killed, wounded, orphaned or displaced.

Interestingly, the United States has been the other major loser. After seven years of the policy of containment, the U.S. position in the region has deteriorated dramatically. The U.S. has paid heavily to suit the convenience of its regional friends.

Nations, to justify their own inaction concerning Lebanon, have conveniently hidden behind the alleged lack of Lebanon national reconciliation. I was disappointed to hear Asst. Sec. Veliotis say that the State Department was still supporting, at least in their public statements, the fiction that national reconcilliation in Lebanon does not exist but could be promoted with the help of other Arab countries.

The Lebanese Christian community has long since quietly achieved an accord with Lebanon Moslems to rebuild their country and recapture their glorious and successful past, but the Moslem community cannot state so publicly. Containment has resulted in the elimination of Lebanese Moslem leadership that truly reflects the people. As in the East European Model, it has been replaced, under brutal and degrading occupation, by fake leadership which represents alternatively Syria, PLO, Lybia, Iraq, Iran, Jordan, and others, none of whom view Lebanon as does the Lebanese Moslem community.

Evidently national reconcilliation is defined as having the Lebanese people accommodate -or else - to the interests of the regional Arab countries and not to their own needs and legitimate aspirations. This is the Catch-22 of past U.S. and Arab policy.

The strategic climate of 1982 is different from that of 1975. Detente has collapsed, there is massive Soviet penetration of the region, and the U.S. and the West are on the defensive as the Gulf is becoming endangered. A major U.S. reassessment has resulted:

1. a. Syria no longer plays a constructive role in Lebanon, and should withdraw its forces from Lebanon. Continuing Syrian excesses shocked and embarrassed the U.S. and culminated in the Zahle shelling where the U.S. could no longer support the fiction of peacekeeper as opposed to occupier. In this sense Zahle was a key victory for the resistance of the Lebanese people.

   b. U.S. fear of vacuum left by the Syrian departure is no longer strong. The U.S. now realizes that Syria is continuously creating the divisiveness and instability that justifies their retention.

   c. Control of the situation in Lebanon can no longer be under the most radical, unstable country in the region. Syria is inherently more unstable than Lebanon, their internal situation is deteriorating rapidly and irreversibly, and this instability is being reflected directly and dangerously into the already explosive Lebanese situation.

   d. Syria has been the main opposition to both the Camp David and the Saudi peace plans.

   e. Syria is teaming with Libya and the Soviet Union in support of Iran.

   f. A successor to President Assad is no longer considered to be a worse alternative. In the words of one U.S. official, "Who could be worse?"

2. A strong, stable Lebanon is of strategic value to the U.S. for four reasons:
    a. The three major extensions of Soviet policy converge in Lebanon; Syria, whose army is in Lebanon; PLO, who live in Lebanon; Libya, whose largest politico-military investment is in Lebanon. Soviet and Eastern Europe trade missions, cultural missions, and political activity have alarmed the traditionally pro-West Lebanese. A strong Lebanese state would blunt all this activity.
    b. International terrorism,largely exported from Lebanon, could be brought under control for the benifit of free nations everywhere.
    c. The peace process would be helped by downgrading Syria's ability to oppose.
    d. Defusing the volatile Lebanese flash-point would increase regional stability and help preserve continual access to oil.
3. It is now clear that all nations of the region have motives in Lebanon that are not in Lebanon's interest, and that a direct U.S.-Lebanon relationship should be established, to realize U.S. goals within Lebanon and to the extent the Lebanese situation impacts the region.

Our task is now to convert these conclusions to dynamic policy implementation within the next few months. The scheduled Presidential election in August and the events leading to the election will determine the future of Lebanon for a long time to come, for better or for worse. We cannot delay longer.

The United States must:

1. Guarantee the sovereignty and territorial integrity of Lebanon within its internationally recognized boundaries.
2. Guarantee the freedom and security of the Christian, Moslem, Druze and other communities in Lebanon.
3. Secure early withdrawal of Syrian occupation forces from Lebanon.
4. Support a strong Lebanese authority that insures Palestinian behavior in Lebanon is not in violation of national and international laws and rules of conduct.

5. Guarantee free Presidential elections in August 1982, whose result truly reflects the will of the people rather than that of the armed foreign Syrian and PLO forces in Lebanon.
6. If these policy steps are taken, then construct and approve a major foreign aid program to build up the Lebanese Army, to fund major reconstruction, and most importantly to fund major humanitarian porgrams for rehabilitating the thousands of physically and psychologically damaged, especially children and orphans. This program should authorize $100 million per year for three years for FMS credits to build the Lebanese Army, and $100 million per year for three years for humanitarian/reconstruction programs.

We in ALL have worked very hard over the last several years to illuminate the tragedy of Lebanon and its people, and the immoral dimension of the policy of containment. The Zahle siege last year which crystalized Congressional and national outrage against the Syrians was merely the latest cruel chapter, on a grand scale, of policy gone awry.

However, if the Zahle siege is the ultimate example of madness given a veneer of respectability by major powers justifying a bankrupt policy, it also defines for us the magnitude of the task that remains. Our job during the next four critical months is ambitious and imposing, but absolutely vital.

I have just returned from Beirut, where I attended the First International Conference for Solidarity with Lebanon. Over twenty nations of the world were represented by senior government officials, scholars, businessmen, scientists, writers, all expressing the swelling outrage of the people of their nation concerning the Lebanese tragedy as their governments remain silent.

My concluding comments to this impressive international gathering were:

> "Each of you here is from a free, democratic country. One of the flaws of democracy is that, although domestic policy is directly coupled to the feelings of the people, foreign policy is not. It is usually in the hands of pragmatists unencumbered by the burdens of morality and justice. Our task is to couple

decent public opinion to foreign policy decisions.

We in the free world are our finest when we do indeed defend justice and oppose cruelty, whenever we can in the world, and in so doing, enrich our own individual national spirits. Lebanon gives us our greatest opportunity to enrich ourselves once again, and to the extent we are successful, God's work will truly be our own."

Thank you, Mr. Chairman

## CONCLUDING REMARKS

Senator KASTEN. Mr. Basil, thank you very much. I think it is obviously, at this moment, impossible to know what the outcome of the conflict in Lebanon will be. But I just want to say that we appreciate your testimony.

I feel very strongly that we may, as you suggest, have an unprecedented opportunity, and if the terrorist influence of the PLO and the Russian influence of the Syrian troops can be removed from Lebanon, I think that means that there is a real chance for the kind of peace and stability that produced a democracy, a country that was productive and self-sufficient.

I believe that through the events of the last few days we may in fact be on the verge of some kind of a solution that will remove all of the foreign armed troops, including the PLO and the other terrorist groups, and we look forward to working with you.

Thank you for your testimony before this committee today.

Mr. BASIL. Thank you very much, Mr. Chairman.

Senator KASTEN. Fran P. Hosken.

Ms. Hosken is the editor and publisher of the Women's International Network News. If my memory is correct, you testified before our committee a year ago, and we are pleased to have you back today.

## WOMEN'S INTERNATIONAL NETWORK NEWS

### STATEMENT OF FRAN P. HOSKEN, EDITOR AND PUBLISHER, WOMEN'S INTERNATIONAL NETWORK NEWS

Ms. HOSKEN. Thank you very much.

Thank you for the opportunity that I may testify here again. For the benefit of the people who were not here last year, Women's International Network News [WIN] is an open, participatory network by, for, and about women that speaks for women's development and women's rights worldwide. WIN is a nonprofit and charitable organization, functioning worldwide throughout the developing countries.

WIN News supports the implementation of the Percy amendment "to integrate women in development" and the United Nations World Action Plan for Women.

First of all, in summary I would like to say, we urge that the proposed budget be appropriated, but we ask also that women should receive their rightful share of the Agency for International Development programs. Health is a prerequisite for development, but the urgent mother and child health needs, especially in the poorest countries, are short-changed in all AID health programs that we have examined.

We urge, therefore, that these programs should be reorganized internally and the proportional funds spent on women and children should be given priority.

In a consultation with the World Health Organization recently their professionals stressed to me that they will not be able to reach their goal, the proposed goal by the World Health Organization, "Health for All by the Year 2000" unless the health of women is dramatically improved.

They also stressed to me that according to their statistics, childbirth continues to be the largest cause of death of women in all the poorer countries. Yet, there is almost no childbirth education in any of the AID programs that I have seen.

Since my testimony last May there has been very little positive change. The Agency for International Development still has not acted to incorporate the World Health Organization seminar recommendations made by the health delegations of nine African and Middle Eastern countries into their multimillion dollar health programs in African and Middle Eastern countries.

### SEMINAR RECOMMENDATIONS

These recommendations of the seminar, hosted by the Sudan, on traditional practices affecting the health of women and children read as follows:

Adoption of clear national policies for the abolishment of female circumcision.

Establishment of national commissions to coordinate and follow up the activities of the bodies involved, including where appropriate, the enactment of legislation prohibiting female circumcision.

Intensification of general education of the public, including health education at all levels, with special emphasis on the dangers and the undesirability of female circumcision.

Intensification of education programs for traditional birth attendants, midwives, healers and other practitioners of traditional medicine to demonstrate the harmful effects of female circumcision, with a view to enlisting their support along general efforts to abolish this practice.

The Health Department delegations participated from the following countries—Sudan was the host country—Egypt, Somalia, Djibouti, Ethiopia, Kenya, Oman, Southern Yemen, Nigeria, and an observer from Upper Volta.

The U.S. Agency of International Development has multi-million-dollar health programs in the following countries: $4 million, a rural health project in Mali; $8 million, a primary health care project in the Sudan. $14 million, a rural health delivery project in Somalia; and $25 million, a regional program for strengthening health delivery systems, the SHDS program, in 20 countries in Central and West Africa.

In all the above-cited countries with ongoing AID health programs, female genital mutilation or female circumcision, as it is called in Africa, is practiced at the present time on a majority of the female children right in the AID project areas. But AID program papers and plans, though they describe all other health hazards that affect the populations of these regions, never mention the existence of genital mutilation which is a major health hazard for women and children that has been unequivocally established by extensive clinical studies.

The highest childbirth mortality rates—of both mother and infants—furthermore, can be found in Africa, precisely in the regions where genital mutilation is practiced—including in Somalia, Sudan, and Mali and most of West Africa where AID's multi-million-dollar programs are presently located. One searches in vain for any positive childbirth education in these programs that are paid for by U.S. taxpayers--including U.S. women—in these areas.

My research shows that genital mutilation is being introduced now into the modern health sector in Africa, including into hospitals. The operations are often done on newborn babies even, as sexual castrations of females, stripped of all traditional rites. This is a gross abuse of modern medicine, and we must advise this committee that increasingly health equipment and training contributed by the United States to these countries where these operations are practiced, is used to mutilate female children.

Speaking for American women and taxpayers, I strenuously object to the U.S. moneys being used to carry out clitoridectomies and infibulations on nonconsenting children in Africa and in the Middle East with U.S. contributions, equipment, and tools.

We regret to report that AID has taken no effective measures to prevent these operations even in their own project areas. The health hazards of the mutilations are never even mentioned in the program papers, though all other health hazards are cited.

In Egypt, legislation exists against the operations. However, one looks in vain for any preventive measures in the multi-million-dollar health programs to which the U.S. contributed in Egypt. At a visit to Egypt in 1980 I met with Dr. El-Sayyad, the Director of Mother and Child Health in the Health Ministry. Dr. El-Sayyad readily admitted that genital mutilation is a severe health problem all over Egypt, and that he would welcome help, especially with health education and preventive programs.

Therefore, WIN News has developed educational materials, "The Childbirth Picture Book"—I have a copy here—which is being used already by several health ministries in different parts of the world, incuding in Africa. We have made these materials available including—free of charge—to AID but they have not even been willing to try them out, let alone introduce them in their own programs or make them available to African health ministries.

UNICEF has recently sent 40 of our books to all their project people overseas, and they are the only educational materials available on childbirth in visual form that also have additions on the prevention of female circumcision and genital mutilation.

Childbirth, furthermore, continues to be the largest cause of death precisely in the regions where these operations are practiced. We have examined the programs of AID and though death in childbirth can be easily prevented, there is literally no childbirth education directed to the general public or in easily understandable form available in any of the programs currently funded and currently being carried out, particularly in Africa, nor anywhere else.

The failure of AID to prevent genital operations in their own program areas is especially irresponsible because this omission on the part of AID is interpreted abroad that we are supporting these mutilations, and it is also against the recommendations specifically addressed to the international sector by the African countries who participated in the Khartoum seminar.

We are also urging now, by collecting signatures, the World Health Organizations to declare unequivocally in a special worldwide press release that the introduction of these operations into the modern sector is unethical from a medical point of view, and we are urging them to make it unequivocally clear that female genital mutilation is unacceptable from a professional and medical point of view.

We have already collected thousands of signatures that we have sent to Dr. Mahler in Geneva, and we are asking that AID should join in and similarly put out a declaration on behalf of AID.

We ask that this committee should require AID to implement the Khartoum seminar recommendations throughout their health program areas in Africa and the Middle East where these operations continue today.

Also, all health contractors currently receiving AID funding should be made responsible for the implementation of these recommendations which were made by African health departments themselves.

I should be very grateful for your assistance with these problems and particularly with increasing the funding for health for women throughout the developing world.

I shall be glad to answer some questions.

[The prepared statement of Fran P. Hosken follows:]

## PREPARED STATEMENT OF FRAN P. HOSKEN

EDITOR/PUBLISHER

WIN NEWS

Mr. Chairman:

Thank you for the opportunity of testifying as editor and publisher of Women's International Network News (WIN NEWS).

WIN NEWS is an open, participatory network by, for, and about women that speaks for women's development and rights worldwide. WIN NEWS supports the implementation of the Percy Amendment "to integrate women in development", and the United Nations World Action Plan for Woman.

Since my testimony of last May, there has been no positive change. The Agency for International Development still has not acted to incorporate the World Health Organization (WHO) Seminar Recommendations made by the Health Delegations of nine African and Middle Eastern countries, into their multi-million $ health programs in African countries.

The WHO Seminar recommendations held in 1979, hosted by the Sudan, on "Traditional Practices Affecting the Health of Women and Children" read as follows:

- Adoption of clear national policies for the abolishment of female circumcision;
- Establishment of national commissions to coordinate and follow-up the activities of the bodies involved, including where appropriate, the enactment of legislation prohibiting female circumcision;
- Intensification of general education of the public, including health education at all levels, with special emphasis on the dangers and the undesirability of female circumcision;
- Intensification of education programmes for traditional birth attendants, midwives, healers and other practitioners of traditional medicine, to demonstrate the harmful effects of female circumcision, with a view to enlisting their support along general efforts to abolish this practice.

The Health Department delegations participating were from Sudan (host) / Egypt / Somalia / Djibouti / Ethiopia / Kenya / Oman / Southern Yemen / Nigeria (with an observer from Upper Volta).

The U.S. Agency for International Development (AID) has multi-million dollar health programs in the following countries:

| | |
|---|---|
| $ 4,000,000 | Rural Health Project in Mali // |
| $ 8,000,000 | Primary Health Care Project in Sudan // |
| $14,000,000 | Rural Health Delivery Project in Somalia // |
| $25,000,000 | Program for Strengthening Health Delivery Systems (SHDS) in 20 countries in Central and West Africa. |

Despite the fact that according to all statistics, the health needs of mothers and children exceed those of all other sectors of the population, Mother & Child Health (MCH) are very much neglected in these programs.

In all the above cited countries with ongoing AID health programs, female genital mutilation is practiced at the present time on the majority of the female children, right in the AID project areas: but the AID program papers and plans, though they describe all other health hazards that affect the populations of these regions, never mention the existence of genital mutilation, which is a major health hazard for women and children that has been unequivocally established by extensive clinical studies. The highest childbirth mortality rates (of both mothers and infants), furthermore, can be found in Africa, precisely in the regions where genital mutilation is practiced - including in Somalia, Sudan, Mali and most of West Africa, where AID's multi-million dollar health programs are located. One searches in vain for any positive childbirth education in the programs that are paid for by U.S. taxpayers - including by U.S. women - in these areas.

My research shows that genital mutilations are increasingly performed in the modern sector in Africa, including in hospitals, often on newborn babies, as sexual castration of females, stripped of all traditional rites. This is a gross abuse of modern medicine and we must advise this Committee that increasingly health equipment and training contributed by the U.S.A. to the countries where these operations are practiced, is used to mutilate female children. Speaking for American women and taxpayers, I strenuously object to the use of U.S. moneys and contributions to carry out clitoridectomies and infibulation on non-consenting children in Africa and the Middle East, with U.S. contributions, equipment, and tools.

We regret to report that AID has taken no effective measures to prevent these operations in their program areas: not even in Somalia, where a governmental Commission was formed in 1978 to abolish genital mutilation. Though the $14 million AID Rural Health Program states that such a Commission exists, genital mutilation is never mentioned as a health hazard throughout the program papers, while all other health hazards are cited. Yet, the hospitals in Mogadishu,the capitol, are full of severely damaged and mutilated children and women, as I can confirm from my own visit to this country, where I was invited to speak at the University on this very subject, at a meeting concerned with prevention and abolishment of these damaging operations.

In Egypt, legislation exists against the operations; however, one looks in vain for any preventive measures in the multi-million dollar health programs to which the U.S. contributes. At a visit to Egypt in 1980, I met Dr. El-Sayyad, the Director of MCH in the Health Ministry: Dr. El-Sayyad readily admitted that genital mutilation is a severe health problem all over Egypt and that he would welcome help, especially with health education and preventive programs.

WIN NEWS has developed educational materials, THE CHILDBIRTH PICTURE BOOK, to teach about positive reproductive health. Our book and materials have been ordered by several health ministries in different parts of the world including Africa. Though we have made these materials available to AID, the Health Administrator of AID has refused to try them out and/or make them available in their program areas and/or the ministries in the countries where AID has health programs. We have developed a special Addition on the Prevention of Excision and Infibulation correlated with these books. Though UNICEF recently sent out our book to their representatives all over the world, AID has ignored our educational materials, even though they have been praised by, and are being used in, developing countries all over the world, and especially in Africa.

We would like to draw your attention to the failure and the active resistance on the part of AID to recognize the health needs of women, or to include health education and information in any of the AID programs, though this was asked for at Khartoum by all delegations. It is entirely unnecessary that childbirth continues to be the greatest health danger for women and their babies: health education can reach the remotest areas with the help of simple, inexpensive communication technology and methods. But AID's health programs introduce computers and sophisticated medical technology into city hospitals in countries where up to 90 percent of the women are functionally illiterate and the infant/maternal mortality rate is staggering. This is done, for instance, by the SHDS (Strengthening Health Delivery Systems) Program, which is concerned with introducing sophisticated administrative techniques and computers in countries where most of the population have no access to modern health care of any kind.

Last year, we provided this Committee with an analysis of the SHDS Program, which largely ignores the real needs of women while it concentrates on teaching high-level health administrators who have no contact with their own rural areas. This program is run by Boston University on an annual renewal basis. We urge that this program be stopped and reorganized.

The failure of AID to prevent genital operations in their own program areas is especialy irresponsible. The operations are now performed by health personnel trained by AID, using antibiotics supplied by AID, in facilities subsidized by AID, without any objection being made by AID health personnel and administrators. It is the ommission on the part of AID to address the problem which makes this possible, and the failure of AID to actively implement the Khartoum Seminar recommendations which specifically address the problem: They demand abolishment of the practice and health education to prevent the mutilations. All of this has been ignored by AID.

We urge you and your Committee to require that AID should implement the Khartoum Seminar recommendations made by African and Middle Eastern health department representatives in all AID health project areas in Africa and the Middle East where genital mutilation is practiced, and to show proof not only that this is being done but to make regularly statistical surveys of results - in terms of fewer children being mutilated.

WIN NEWS is collecting signatures all over the world to urge WHO to declare unequivocally in a worldwide, multi-lingual release, that all types of genital mutilations on female children in the modern health care sector are unethical from a medical point of view, and must be condemned by professionals and professional organizations. Though both WHO and UNICEF have spoken to the subject at meetings and in reports, there never has been a specific, single-topic, worldwide, press release to make it unequivocally clear that female genital mutilations are unacceptable from a medical and ethical point of view.

Thousands of signatures have already been sent to Dr. Mahler, the Director of WHO, and the Directors of the Regional Offices. We are attaching here the letter that we have been sending out since last summer. We urge this Committee to support this statement and to ask WHO to make the issue clear in a specific release. We also urge this Committee to ask that the AID Administrator should similarly adopt and sign this letter and make a similar declaration on behalf of AID.

We also ask that this Committee should require AID to implement the Khartoum Seminar Recommendations throughout their health program areas in Africa/Middle East where genital mutilation continues and a similar requirement should be made in all health contracts awarded by AID; all health contractors should be held responsible for the implementation of the recommendations to abolish female circumcision/genital mutilation, and to implement positive health and reproductive education in their project areas in countries where genital mutilation is practiced.

We thank you for your assistance with these problems which need to be remedied to safeguard the positive reputation of the U.S. Government and its citizens in developing countries.

Fran P. Hosken

Fran P. Hosken
Editor/Publisher
WIN NEWS

WIN
WOMEN'S
INTERNATIONAL
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PRESS RELEASE:

INTRODUCTION OF FEMALE GENITAL
MUTILATION INTO HEALTH CARE
PRACTICE AND INSTITUTIONS.

WORLD HEALTH ORGANIZATION
Dr. Halfdan Mahler, Dir.
1211 Geneva 27
Switzerland

Attn: Dr. Angel Petros
Barvazian, Director/
Family Health

WORLD HEALTH ORGANIZATION
E. Med. Reg. Office/EMRO
(Coordinators on Female
Circumcision)
P.O. Box 1517
Alexandria, Egypt

Attn: Dr. A.H. Taba, Dir.

WORLD HEALTH ORGANIZATION
African Reg. Office/AFRO
P.O. Box #6
Brazzaville, Congo

Attn: Dr. Quenum, Dir.

RECOGNIZING THAT:

Many thousands of concerned women and men from all over the world signed the following statement, which was circulated by WIN NEWS since 1976 and sent to Secretary-General Kurt Waldheim / Assistant Secretary Helvi Sipila (IWY) / and the U.N. Human Rights Division:

> "The mutilation of the genital organs of the female body for any reason whatsoever is a fundamental offense against the human rights of all women in general, and specifically against the female children and women who are mutilated. The RIGHT TO HEALTH is a basic human right that cannot be abridged."

AND RECOGNIZING THAT:

Genital operations are performed on non-consenting female children by health professionals (physicians, surgeons, trained midwives, trained nurses and trained health workers), often using equipment tools, and pharmaceuticals contributed by international assistance programs in hospitals/clinics/and other health care settings in Africa, the Middle East, and parts of Asia. The operations are also now being performed in many other parts of the world on children of African/Middle Eastern immigrant including in France, Germany, Italy, Sweden, Australia and more, and are being spread all over the world,

WE, THE UNDERSIGNED, URGE THE WORLD HEALTH ORGANIZATION TO STATE:

- that these operations have no justification from a health point of view (with exception of those few isolated cases where cancer or other pathological conditions prevail);
- that it is medically unacceptable to perform any unnecessary operations unless the health and life of the child is threatened;
- that all unnecessary operations must be condemned from an ethical/medical point of view, unless performed with the informed consent of the person or child operated;
- that operations designed to mutilate the sexuality of females -- infibulation and clitoridectomy --must be declared professionally and ethically unacceptable and subject to exclusion from the health professions, just as operations to mutilate the sexuality of males --penisdectomies-- would be declared unethical.

WE, THE UNDERSIGNED, URGE THE WORLD HEALTH ORGANIZATION TO PUBLISH A STATEMENT, addressed to health professionals and health practitioners of all kinds to state unequivocally that all genital operations on females are unnacceptable from an ethical and medical point of view, and must be condemned.

Fran P. Hosken.
Fran P. Hosken,
Publisher / WIN NEWS

PLEASE CUT AT DOTTED LINE AND RETURN WITH YOUR SIGNATURE AND AS MANY ADDITIONAL SIGNATURES AS POSSIBLE. PLEASE MAKE COPIES OF THE LETTER AND SEND TO OTHER PEOPLE WHO MIGHT SUPPORT THIS INITIATIVE, AND/OR REPHRASE THE STATEMENT AS YOU WISH. THANK YOU FOR YOUR HELP. WIN NEWS WILL FORWARD ALL COPIES TO THE WORLD HEALTH ORGANIZATION OFFICES INDICATED ABOVE.

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We have read the WIN NEWS Press Release on "Introduction of Female Genital Mutilation into Health Care Practice and Institutions". We join in urging the WHO to publish a statement condemning the introduction of female genital mutilation into modern health care practice/institutions, warning about the damaging results of such operations.

Senator KASTEN. I thank you very much for your testimony, and we appreciate the help you have given the committee.

In the interest of time we do not have an opportunity for questions right now, but I would like to thank you for your testimony.

Dr. Fred Hutchinson.

Dr. Fred Hutchinson is vice president for research at the University of Maine, representing the National Association of State Universities and Land-Grant Colleges.

Dr. Hutchinson, it is a pleasure to have you before the committee.

## NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

## STATEMENT OF FRED HUTCHINSON, VICE PRESIDENT FOR RESEARCH, UNIVERSITY OF MAINE, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

### TITLE XII AMENDMENT

Dr. HUTCHINSON. Thank you, Mr. Chairman.

My goal today—I have already submitted the written testimony—is to convince you a little bit about title XII, the amendment to the Foreign Assistance Act, its relative health, vigor, and progress.

The title XII amendment, as I am sure you are well aware, was designed to increase the collaboration of U.S. universities with USAID in support of foreign assistance, and to bring the expertise available in the universities to bear in a more organized way in that regard.

It has indeed been several years since the legislation was passed, and I know that there are those Members of Congress who have asked about progress to date. What I would like to do is to just take a few moments to talk about the evidence, that progress is in fact occurring.

One of the initiatives suggested in the legislation was that of collaborative research in support of foreign assistance, especially in the areas of agriculture and nutrition. One of the first things that was done was to establish a prioritized list of programs that would be in support of those initiatives.

There are now seven collaborative research support programs functioning. Those involve 44 U.S. universities, and they are in place 50 LDC's. The number of scientists that is involved is very large, both from the United States and from the host countries.

The subjects that are being covered by those collaborative programs range all the way from sorghum, beans, cow peas, nutrition, soil management, and others.

In addition to the collaborative research programs, the so-called CRISP's, there are also 312 U.S. universities who are conducting technical assistance contracts for USAID. Those programs are growing and very active. In fact, the number of U.S. universities involved in technical assistance contracts is much larger than the 31 if in fact one counts those that are involved through various consortial arrangements.

The impact of programs such as the CRISP's that are now taking place in these many countries are in many cases as important by the side benefits that they create as by the direct research program itself, and I would like to give a couple of examples which I think are exemplary.

### SORGHUM USE FOR HUMAN CONSUMPTION

In sorghum one of the problems that has been encountered worldwide in using sorghum for human consumption is that many varieties contain chemicals which make them unsatisfactory or in fact toxic for human consumption. It has not been easy to deal with that problem or to find solutions.

In the sorghum project, the nutrition component of that noted in Mali that the Malians have a technique that they use which in fact is successful in making those varieties acceptable for human consumption. That is not a technique that has been used in this country or in any other that we know of, although it may have been.

That has now been brought back here to this country and is being studied in several laboratories as to the exact reasons why this particular technique, called the "Folk Method" treatment is in fact successful. That will be a major side benefit from this particular program that was not even anticipated when the research was begun.

Another example is the program with the small ruminant CRISP where in Kenya they immediately noticed that a great many of the goats had a disease that is colloquially called "Arthritis in Goats." This disease in fact was introduced into Kenya from the United States and from Europe in 1976 or thereabouts by goats that were imported there.

The scientists working in this program, the U.S. scientists, immediately noted this condition which was very prevalent throughout the country and which was very debilitating to the flocks of the goatherds. They have in fact immediately established a program to eradicate this disease from the whole country, and it is at this point appearing to be very satisfactory.

Again, a side benefit that came from the program but one that will be worth millions of dollars to that country in the long run.

A couple of other examples of title XII initiatives is the recent program or decision by AID and the BIFAD Board to create a Joint Career Corps.

This is a program whereby U.S. university faculty, a selected number, would in fact develop a joint career pattern with a university and with USAID, by which in terms of 3 years they would spend up to one-half of their time working abroad for USAID. This brings an expertise available to the agency on a sustained basis that has not been true heretofore and will be a very important addition to their program.

### TRAINING FUNDS

My final comment would be related to the need for training funds. The need for funds in support of training of LDC nationals who will become later the scientists in their country upon which programs are built, was never greater. The availability of training funds—both from the United States and other countries—is not as great as it once was, nor is it available from the various foundations who once supported this quite substantially. It is in fact a problem of substantial nature and I would hope that through title XII this initiative can be increased.

I will end there and leave time for questions if there are any. Thank you.

[The prepared statement of Fred Hutchinson follows:]

## PREPARED STATEMENT OF FREDERICK E. HUTCHINSON

VICE PRESIDENT FOR RESEARCH, UNIVERSITY OF MAINE

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

I am here today to speak in support of the U.S. foreign aid appropriations bill and more specifically to Title XII, the Famine Prevention and Freedom from Hunger Act.

The concept described in Title XII of creating a true collaboration between USAID and U.S. universities in support of international development activities is even more essential in 1982 than it was when originally legislated. World food prospects are not bright. World population is increasing nearly 2 percent per year, while the area of land under cultivation remains relatively constant. Worldwide, there is only three-fourths of an acre of cultivated land available per capita, and that figure decreases annually. The only solution to the world food problem is to increase crop yields on land already under cultivation. This will require continued research, institution building, training and technology transfer, the very same elements as those envisioned for Title XII programs.

Fortunately, the collaborative programs under Title XII have been designed, tested and implemented in many different areas of the world and on many different topics. The experience of the past five years has shown that such collaboration between USAID and universities cannot be established without adequate time to plan and design appropriate mechanisms for implementation, and this has led some to complain that the collaboration was not working effectively. Quite the opposite, it was working so effectively that both sides were deliberate in creating a sound base for their joint programs.

The U.S. land grant universities have already been tapped extensively to provide scientists for Title XII programs because they represent an enormous reservoir of talent that can be used in agricultural research, institution building and training. These activities occur under the three main thrusts of Title XII:

(1) Collaborative Research Support Programs (CRSPs).

These programs are a new initiative described in the Title XII legislation. They were developed through a carefully

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*Dr. Hutchinson is Vice President for Research and Public Service at the University of Maine, Orono, Maine. His presentation is on behalf of the National Association of State Universities and Land Grant Colleges.

articulated prioritization process developed by the Board for International Food and Agricultural Development (BIFAD). There are now seven such programs operational on food grains, livestock and aquaculture. Forty-four U.S. institutions are now participating with institutions and scientists in 50 developing countries and six international research centers. These programs are also important in that they provide for a training element as well, and the training occurs primarily in-country.

(2) University Strengthening Grants. These annual grants to fifty four universities have enabled selected members of their faculties to be strengthened for international work in their areas of expertise. In my own university for example, it has enabled us to provide language training in Spanish, French and Creole. Also, travel funds provided have resulted in acquainting several staff members with needs in LDC's, and we now have a growing program in Haiti on aquaculture.

(3) Facilitate University Participation in AID Programs.

BIFAD promotes and facilitates university involvements in AID projects, particularly those involving food, agriculture and nutrition technical assistance, training, research and related institution building. As a result of Title XII, thirty one U.S. universities now have AID technical assistance contracts overseas and most of the remaining Title XII universities share in AID contracts through one or more of the consortiums. There are nearly 3,000 AID-sponsored students studying agriculture and related subjects annually in the U.S. and some of these are now able to conduct their thesis research in their own countries under one of the CRSP programs.

Recently BIFAD and AID have created two new mechanisms to enable AID to utilize university faculty part time on a sustained basis. The Joint Career Corps will allow approximately twenty five university professionals to pursue careers in international development while alternating assignments in AID and their university. This concept also allows AID professionals to upgrade their technical and research capabilities through assignments at participating universities.

The Joint Enterprise concept makes it possible for small universities to participate in AID programs in developing countries. The Niger Livestock Production Project and the Swaziland Teacher Training Project are being initiated under this concept.

In summary, I wish to remind you, the Title XII legislation has been successful in creating a sound basis for collaboration between USAID and U.S. universities in support of the U.S. foreign assistance program, particularly in research, institution building and training. Funding is needed to allow these initiatives to continue because none of them can be considered as short-term. I urge your support for the AID appropriation.

Thank you.

### UNIVERSITY PARTICIPATION IN CRISP PROGRAM

Senator KASTEN. Thank you, Dr. Hutchinson, very much. As I think you are aware, this committee has been generally supportive of the title XII programs.

The only criticism we from time to time receive is the suggestion that through this title XII program we are helping the American universities more than we may be helping the foreign countries or the recipients.

I wonder if you could respond to that concern because it is one that comes up occasionally.

Dr. HUTCHINSON. Well, I have heard many answers given to that question, all of which are very good ones.

I think, first of all, I was one of those that helped design the CRISP program, and I can assure you in the CRISP program we required from the beginning that each university that participated—excuse me, I am not right.

That on the average those universities participating in any CRISP program must put in 25 percent of the funds from their own initiative, non-Federal funds, that each university would have to put in. That has been true, and in some of the CRISP's the amount of money being put in by the universities for their part of the program is as much as 40 percent.

I have seen one university recently that I visited where they are in fact putting in 50 percent. I think that is an indication that the universities are not totally profiting—if that is the word—by this program. I think that it in fact is difficult for U.S. universities operating with State tax dollars and tuition funds to put very much of that into foreign assistance. It is not seen as in the interest of students who are paying tuition, for example, to do that.

So, I believe that the evidence is very strong that the universities are not only putting in their manpower and time, but are committing of their own resources.

Senator KASTEN. Thank you very much for your participation. We look forward to working with you and others in your Association of State Universities and Land-Grant Colleges as we work through more of these programs. We very much appreciate your sharing this information with us today.

Dr. HUTCHINSON. Thank you.

Senator KASTEN. Mr. Thomas Dine, speaking for the American Israel Public Affairs Committee. Tom, thank you for joining us.

## AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

## STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

### ISRAELI-PLO CONFLICT IN SOUTHERN LEBANON

Mr. DINE. Thank you, Mr. Chairman.

Before turning to the foreign assistance appropriations bill, I would like to comment on the outbreak of fighting between Israel and the PLO in southern Lebanon.

The Israeli operation followed more than 100 documented ceasefire violations by the PLO, the latest of which was an artillery barrage of more than 1,000 shells into northern Israel on a Sabbath morning.

The declared goal of the Israeli operation currently underway is self-defense, to safeguard the Israeli civilian population from rocket and artillery attacks. The Israelis have repeatedly stated that they do not seek to acquire one square inch of Lebanese territory.

The Israelis have struck at PLO emplacements, bases and depots. These terrorist installations represent a threat to American interest, as well as Israeli. As CIA Director William Casey remarked last Friday, the Soviet Union has provided funding to the PLO and with at least tacit Soviet approval many groups have trained together in Cuba, Libya, Iraq, South Yemen, and Lebanon.

Mr. Chairman, the President of the United States told the combined Houses of Parliament this morning that, "The fighting in Lebanon on the part of all parties must stop and Israel should bring its forces home. But—" he added—"this is not enough."

The President then went on to declare, "We must all work to stamp out the scourge of terrorism that in the Middle East makes war an ever-present threat."

I would like to add here that terrorism conducted by the PLO not only considers all Jewish men, women, and children—anywhere in the world—to be legitimate targets in its avowed efforts to liquidate the Jewish State, but it also deliberately aids and abets terrorism against U.S. interests and democratic institutions.

U.S. policy can take advantage of the new reality emerging from this current conflict and play a crucial and constructive role in shaping the future of the region.

One. The United States should set in motion an effort to restore Lebanon's unity, integrity and sovereignty. Toward that end, the Syrian occupying armed forces must be extricated and the terrorist PLO must cease to exist. Palestinian radicals, anti-West and for sure anti-Israel, cannot be allowed to come back into southern Lebanon.

Two. The United States should work with its ally, Israel, to plan and coordinate a program to keep the PLO from returning near Israel's northern farms and factories and to prevent the Israeli population as a whole from being constantly harassed. Several options come to mind: A beefed up Lebanese Army patrolling a widened cordon sanitaire; a multinational peacekeeping force; perhaps a powerful UN peacekeeping force.

Three. None of us wants a wider war. Syrian aggressiveness so far has been restrained, although this morning's dispatches indicate an upturn in Syrian air and ground armored force actions. The United States and its European allies, particularly France, should be working hard to keep the Syrians away from the current conflict and then pursuing ways to redeploy Syrian forces to their home bases.

Four. The United States should reemphasize the Camp David peace process. Joe Kraft this morning in his article rightly says that "Egypt, Syria, Iraq, and Saudi Arabia have all had to play PLO politics." Mr. Kraft left out Jordan. I believe it is now time for Jordan and Saudi Arabia, indeed Syria and Iraq, to join Camp David. Egypt has reaped its fruits, Jordan in particular may find the negotiating table a fertile field as well.

Mr. Chairman, I ask that the Kraft column from this morning's Washington Post and an AIPAC memorandum sent to all congressional offices be inserted in the hearing record at this point on these particular matters.

Senator KASTEN. Without objection, the insertions will be included in the record.

Mr. DINE. Thank you.

[The documents follow:]

[From the Washington Post, June 8, 1982]

## OPENING IN THE MIDDLE EAST

(By Joseph Kraft)

For once, Israel ought not to be judged only by the obnoxious personality of Menachem Begin. For this time, the Israelis seized an opportune moment for applying force to correct a dangerous military imbalance on their northern frontier.

Their drive into Lebanon should not occasion an orgy of heavy moralizing by the United States. The emphasis, instead, ought to be on limiting the Israeli assault, and then arranging withdrawal in a way that advances long-term stability throughout the Middle East.

The imbalance on the northern border came to light about a year ago. Prior to that time, Israel had been able to hold Palestinian terrorists at bay by occasional forays against the camps of the Palestine Liberation Organization in Lebanon. In the spring of last year, the PLO moved large numbers of artillery pieces and rockets so close to the border that they were able to hit Israel's northern towns. Israeli citizens were in effect held hostage as a check on moves by the Israeli military against the PLO and its agents. Ever since the Israelis have been spoiling for a pretext to drive PLO forces out of range of the border towns.

The attempted assassination of Shlomo Argov, the Israeli ambassador to Britain, on June 3, opened the door. The Israelis bombed PLO camps in retaliation. The PLO shot back across the frontier, causing casualties in one of Israeli's northern towns. Israeli forces then invaded southern Lebanon. Presumably they will advance only as far, and stay only as long, as required to wipe out the border installations.

Chances that the war will widen at this time are minimal. The Egyptians show no sign of going back on the Camp David Peace Accord that went fully into effect on April 26. A string of Iranian victories in the war against Iraq has immobilized that country and its chief Arab supporters, Saudi Arabia and Jordan. The regime of Hafez Assed in Syria is still weighing the consequences of the Iran-Iraq fighting, and has only just recovered from a bitter spell of internal strife provoked by Iraq. With Syria frozen in place, the Soviet Union—which now keys policy on that country and Iran—is unlikely to move.

The United States, in these conditions, can add to its reflexive opposition to violence some long-headed thoughts about strategic interests. Such thought does not automatically reduce the mystery of the Middle East to a clear, coherent pattern. Still, certain home truths emerge.

First, with respect to the PLO. It has long been the big troublemaker for the whole area. It has shattered Lebanon, and threatens the security of Jordan as well as Israel. It complicates, in irrational ways, the politics of Arab countries ambitious for regional leadership. Egypt, Syria, Iraq and Saudi Arabia have all had to play PLO politics. So it will be no bad thing for everybody if the Palestinian radicals suffer a sound thrashing. Indeed, the crushing of the PLO is a prerequisite for reestablishing the integrity and independence of Lebanon.

With respect to the Iran-Iraq war, a settlement is not clearly in the American interest. The forces of Islamic radicalism, under the Ayatollah Khomeini, are on the verge of a triumph that threatens stability in Iraq, and the monarchical regimes in Jordan and the oil states, including Saudi Arabia and Kuwait. If the United States has to rally to the side of Iraq to prevent its conquest, the Iranians will then turn to the Soviet Union. The Russians will be nothing loath to build up their position in the country that is strategically central to the whole region.

But the Iranians can probably be bought off short of total victory by the ouster of President Saddam Hussein in Iraq, and the payment of war reparations by Kuwait and Saudi Arabia. In view of Saddam Hussein's record as a butcher, and the wealth of the Saudis and Kuwaitis, a change in regime in Baghdad would be a cheap price to pay for avoiding a military conclusion to the war.

The more so as such an outcome would make an indent for some creative diplomacy in the area. The Jordanians and the oil states now stand naked to subversion by the radicals of Iran, Syria, Libya and the extremist wing of the PLO. As never before, the Arab monarchies need protection. The way to get it is through alignment with the United States and Egypt in an understanding that brings Jordan into the Camp David peace process. King Hussein would then emerge as the Arab leader who, be negotiating with the Israelis, brought to the Palestinians the change for autonomy the PLO has not allowed them to achieve.

In sum, the Israeli attack on Lebanon opens a whole bag of diplomatic opportunities with little serious risk of a wider war. The United States can use the opening to advance stability in the area without yielding local advantage to the Soviet Union. What Secretary of State Haig called "strategic consensus" can be made to work as an instrument for this country's friends in the area against the radicals backed by Russia.

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## AIPAC MEMORANDUM

AIPAC urges this Committee and the Congress to approve the total funding levels and terms of economic and military assistance to Israel recommended by the Senate Foreign Relations Committee. In military assistance, we support the additional $300 million in FMS loans to Israel, all of which is to be forgiven. This increase is intended to help finance Israeli aircraft purchases that were necessitated by the new security requirements created by the sale of F-15 enhancement equipment and AWACS to Saudi Arabia.

The 1982 "AID Report on the Israeli Economy and Debt Repayment Prospects" states that each $100 million of FMS loans cost Israel $22.65 million per year in debt service, or more than $550 million over the life of the loan. Thus, were the additional FMS funds to be provided as unforgiven loans in accordance with the Administration's recommendations, it would cost Israel approximately $1.6 billion to repay the loans it was forced to take out to offset the Saudi arms package.

Already this year, debt service to the United States will amount to approximately $810 million, exceeding the total ESF grant assistance Israel receives from the United States. For fiscal year 1983, Israel's debt repayments to the United States are expected to reach $910 million. We, therefore, urge your Committee to approve the level of grant ESF funding—$910 million—authorized by the Senate Foreign Relations Committee and to disapprove the Administration's request to reduce ESF grant assistance by $260 million. As you well know, Israel has received $785 million annually since 1978 in ESF funding—a severe decline in real value over the past four years, given the effects of inflation. In the meantime, Israel's debt as a percentage of GNP has risen enormously since the 1973 Yom Kippur War, to the point where last year that debt stood at 92 percent of GNP—close to double 1970's percentage of 49 percent of GNP. Israel's military security cannot be guaranteed without corresponding assurances regarding its economic security.

Clearly, Mr. Chairman, Israel cannot afford to engage in a war of economic attrition against Saudi Arabia and the other Arab confrontation states—a war which the Arabs can win without firing a shot. Unless the United States provides military assistance to Israel on terms it can bear, Israel will simply not be able to afford to purchase the military equipment it needs to offset the sale of sophisticated U.S., European and Soviet arms to Saudi Arabia and other Arab confrontation states. The failure to provide concessional assistance would cast serious doubt on our commitment to preserve Israel's qualitative edge, as promised on several occasions by President Reagan before and after the AWACS and F-15 enhancement sale.

The form this additional $300 million assistance and the additional ESF funds takes will send an important political message to an increasingly anxious Israel. Newsweek, in its April 5 issue, for instance, finds a political "tilt" in the fact that the Administration's fiscal year 1983 foreign aid proposal calls for higher actual outlays for Egypt than for Israel. The Administration suspension of the Memorandum of Understanding and its attempt to repeal grant aid are seen by many as harmful political signals.

Mr. Chairman, now that Israel must bear a greater military expenditure burden than before, along with the high social, political, security and economic costs of the Sinai withdrawal, the United States should be taking actions to improve, not worsen, that burden and which strengthen, not call into question, the extent of the U.S. commitment to Israeli security.

We urge the Committee to take these factors into account as it reviews the fiscal year 1983 Foreign Aid Appropriation bill. While we understand the budgetary constraints under which this Committee must operate, we believe this issue is closely tied to stability in the Middle East and to future hopes for a more comprehensive and lasting peace in the region—a small budgetary price to pay.

Thank you very much.

## FUNDING LEVELS TO ISRAEL SUPPORTED

Mr. Dine. AIPAC urges this committee and the Congress to approve the total funding levels and terms of economic and military assistance to Israel recommended by the Senate Foreign Relations Committee.

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Thank you very much.

[The prepared statement of Thomas A. Dine follows:]

## Prepared Statement of Thomas A. Dine

### EXECUTIVE DIRECTOR

### American Israel Public Affairs Committee (AIPAC)

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed Fiscal Year 1983 Foreign Aid Appropriations bill.

Appearing with me today are Douglas Bloomfield, AIPAC's Legislative Director and Leonard Davis, AIPAC's Research Director. AIPAC is a domestic American lobby. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

AIPAC supports the total amount of economic and military assistance recommended by the Senate Foreign Relations Committee in S.2227 for Israel in Fiscal Year 1983. Those recommendations include increases of $300 million in forgiven Foreign Military Sales loans to Israel and of $125 million in Economic Support Funds.

Overall, the $1.7 billion in foreign military sales credits and the $910 million in economic support funding will help Israel maintain its defensive capability and economic viability.

The assistance for Israel helps to strengthen the vital alliance between the United States and its democratic friend. This assistance reassures an anxious Israel as it takes great national security risks in fulfilling the Camp David Peace Accords. This assistance emphatically tells Israel's Arab foes and the Soviet Union that our national commitment to Israel's security and well-being stands firm. The economic and military assistance recommended for Israel this year thus serves broad American purposes throughout the Middle East and enhances the bilateral U.S.-Israel relationship.

### THE MIDDLE EAST TODAY

Mr. Chairman, instability is pandemic in the Middle East. The Arab-Israeli conflict is only part of the regional turmoil. War continues to rage between Iraq and Iran and both countries face internal threats as well. Fighting has been reported between North and South Yemen. A serious but unsuccessful coup recently took place in Bahrain. Jordanian soldiers are fighting alongside Iraqi troops. Syria remains at odds with both Iraq and Jordan. At least 25,000 Syrian troops occupy most of Lebanon. The once free and independent country is shattered by intra-Moslem, intra-Christian and Moslem-Christian warfare. In effect, Syria has annexed 60 percent of Lebanon -- which it has never recognized as an independent state and considers to be part of greater Syria. The PLO occupies much of the remainder of Lebanon. Meanwhile, inside Syria, near civil war exists with unknown thousands killed as Syrian tanks and artillery mercilessly and brutally blasted away at the residents of Hama just a few months ago.

In Egypt, the assassination of Anwar Sadat only eight months ago leaves that country with a relatively unknown leader and a totally uncertain future. Arab enticements and threats are offered to push Egypt into the Arab rejectionist camp. For the first time in almost a decade, Soviet advisors have been invited back to Egypt. And breaking with his predecessor's practice, Egyptian President Mubarak refuses to visit Israel's capital, Jerusalem or to conduct autonomy talks there or in Washington.

Arab governments are buffeted by oil gluts, ideological debates and personality conflicts. Libyan strongman Muammar Qaddafi somehow finds himself involved in all these disputes as the catalytic agent in this volatile region.

The Middle East continues to be the source of training for international terrorism. From the camps in Libya, Syria, Lebanon, Iraq and South Yemen, terrorists emerge to attack targets in Europe, Latin America, Asia and the Middle East. Training, arms and funds are supplied by these countries to terrorists from a score of countries.

None of this turmoil is related to the Arab-Israeli conflict, and none of the turmoil will disappear with a solution to the Arab-Israeli conflict. All of this turmoil, however, affords the Soviet Union ample opportunities to gain influence in the region. The Soviets have gained more than just a foothold in countries such as Syria, Libya and South Yemen, where they and their surrogates play a vital role in running the military and internal security apparat.

Another major entry for Soviet influence and intimidation in the Middle East is through the Palestine Liberation Organization (PLO). The PLO intimidates and threatens moderates throughout the Arab world, not just on the West Bank and Gaza where 17

Arab residents were assassinated last year. In addition, the PLO trains and supports the international terrorist cadres plaguing western Europe and Latin America. The trial and confessions of the terrorists responsible for kidnapping U.S. General James Dozier, for instance, have revealed the extensive PLO role in arming and training Italy's Red Brigades. [See Appendix I, "The PLO and the Red Brigades."] There is also evidence of PLO training of Ali Agca, the attempted assassin of Pope John Paul II.

In January 1982, PLO leader Yasir Arafat boasted that his forces were actually serving in Nicaragua and El Salvador. [See Appendix II, *Wall Street Journal*, January 14, 1982.] "The Palestinian identity," Arafat explained, "is one of revolutionary struggle and universal in its character..."

In response to the Soviet adventurism in the Middle East, this Administration's policy of a "strategic consensus" was a welcome development. Unfortunately, the response from those Arab countries expected to participate -- most notably Saudi Arabia and Jordan -- has been anything but favorable.

One Middle East country, however, has always shared a strategic consensus with the United States on confronting the Soviet threat, and that country, of course, is Israel. Secretary of State Haig told Congress last year of Israel's "importance... to our developing regional strategy. Israel constitutes an important deterrent in the region and indeed can play a major role in countering the more serious threats involving the Soviet Union."

Just what does Israel offer the United States? Mr. Chairman, Israel offers strengths and characteristics unique among the nations of the Middle East: a firm and enduring commitment to democracy, political stability, proven military capabilities, shared ethical values and a recognized reliability as an ally. Most importantly, Israel's democratic institutions insure that Israel's future political orientation will continue to be one that is firmly rooted in the western mold. That was certainly not the case with Iran, nor is it true of Saudi Arabia, Jordan or even Egypt.

The United States can call on Israel to serve as a regional staging area, a land route for supplies between Egypt and Asia, a refueling base, and a tactical support, maintenance or medical facility. Israel possesses some of the most modern tactical airbases in the world, including two new bases constructed in the Negev Desert with American assistance.

Israel also has deep water ports on the Mediterranean and Red Seas. The port of Haifa is now used by ships of the U.S. Sixth Fleet for supplies and shore leave. Israeli ports and airbases are capable of servicing and repairing virtually any tactical aircraft or fighting ship in the U.S. inventory.

As members of this Subcommittee well know, military installations are important in time of war, but intelligence outposts are no less important in time of peace. Israel is such an outpost for the United States, sharing its intelligence data with the United States and other nations. To cite several examples, Israel warned of instability in Iran months before the fall of the Shah; Israel has provided captured Soviet military equipment (tanks, missiles, aircraft) for American evaluation; Israel has provided details of its tactics and strategy in combatting terrorism; Israel shares information on the Soviet fleet in the Eastern Mediterranean as well as data on the Iraq-Iran war.

The Memorandum of Understanding signed by the United States and Israel on November 30, 1981 recognized the shared strategic consensus of the two nations. The document specifically recognized the Soviet threat to the region.

It was, therefore, with great surprise and disappointment that the Defense Department suspended the agreement less than three weeks later. Considering the document was predicated on confronting the common Soviet threat and that Soviet threat remains, the unilateral abrogation of the agreement makes little sense. This act provides encouragement to those who seek to drive a wedge between the United States and Israel.

With similar dismay, we note that the Annual Report to the Congress for Fiscal Year 1983 by the Secretary of Defense never even mentions Israel and its importance to the United States.

We are pleased to have seen reports that talks to reinstitute the Memorandum of Understanding will soon commence -- action which you, Mr. Chairman, and Senator Inouye forcefully recommended.

## THE THREATS TO ISRAEL

Within the context of U.S.-Soviet competition in the Middle East and the internal instability in the Arab world, Israel finds itself under new military threats and pressures from its Arab foes. In the year since this Committee last deliberated on foreign assistance to Israel, the balance of military forces tipped further toward the Arabs' favor.

In the last year, Israel has faced a serious buildup of long-range PLO weaponry in southern Lebanon. In July 1981, the PLO unleashed a two-week barrage of rocket and artillery attacks against the civilian towns and villages in Israel's north. Since the cessation of hostilities, the PLO buildup has continued unabated. Now reorganized as a terrorist army with underground bases and an elaborate network of bunkers, the PLO has an arsenal comprising mobile rocket launchers, tanks, and long-range 122mm and 130mm artillery. Secretary Haig admitted on February 5, 1982, "It is true that there are reports of levels of both tubed artillery and rocketry moving through Lebanon to the Palestinian forces in southern Lebanon." [See Appendix III, "The PLO Buildup in Southern Lebanon."]

Also in Lebanon, Israel continues to be confronted with six batteries of Syrian SAM missiles, missiles that effectively shield part of the PLO buildup and that have the potential to mask a Syrian troop mobilization in the Beka'a Valley. The missiles remain in in place, despite Secretary Haig's call on July 20, 1981 for restoration of the "status quo ante."

The Syrian threat to Israel continues to grow, beyond the two Syrian divisions now in Lebanon. Syria's late-model tank force of 3700 tanks equals the combined forces of Great Britain, France and Italy. Syria's air force flies the most modern Soviet aircraft, including MiG-23, -25 and -27. In the last year, the Soviets provided Syria with two Tu-126 AWACS. Syrian military exercises indicate that the Syrian army has learned important lessons since the Yom Kippur War in battlefield coordination and management. On several occasions, war games were conducted in conjunction with U.S.-supplied Jordanian and Saudi aircraft.

Jordan, too, looms larger today in Israel's threat analyses. Its cooperation with Iraq in the Iranian-Iraqi war, particularly the dispatch of Jordanian soldiers to the front, shows again King Hussein's inability to stay out of someone else's fight -- a bad habit he revealed in both the 1967 and the 1973 Arab-Israeli wars. Hussein's four army divisions are now fully mechanized, and last year he purchased from the Soviet

Union a mobile anti-aircraft system consisting of ZSU radar-guided guns and 20 batteries of SAM 8s.

Those American officials who insist on portraying King Hussein as a "moderate" have been able to excuse his rejection of the Camp David Peace Process as due to shortcomings on the part of the United States or Israel. But his purchase of Soviet equipment, the training of Jordanian technicians in the Soviet Union, and the Soviet technicians now in Jordan all belie his moderate image.

While in the Soviet Union to negotiate the SAM sale in May 1981, he vowed that "Jordan unhesitatingly fulfills its duty in the struggle against Israeli colonialization and occupation of Palestine and other Arab territories [Pravda, May 27, 1981]." In July 1980, the "moderate" Hussein announced to the Islamic Foreign Ministers Conference that "The Islamic nation ... will not accept the situation of the land of the Prophet's flight to heaven and the cradle of prophets and divine messages [Israel] being the captive of Zionist occupation [Amman Domestic Service, July 11, 1980]."

Despite Jordan's continued rejection of peace with Israel and the recent creation of a joint Soviet-Jordanian military commission, Jordan is seeking -- and the United States is apparently acceding to -- the sale of mobile I-Hawk or Stinger anti-aircraft missiles and F-16 or F-5G aircraft.

Jordan's acquisition of mobile Hawk and/or Stinger missiles will increase the danger of Jordanian involvement in new Arab-Israeli hostilities. Specifically, the missiles will give Jordan the opportunity to launch an attack across the Jordan River under a mobile anti-aircraft missile umbrella. Jordanian objectives would not necessarily be the capture of the West Bank, but the establishment of a beachhead several miles wide on the West Bank. In addition, I-Hawks placed along the Jordanian-Israeli border would threaten approximately one-third of Israel's airspace. [See Appendix IV, "Arms Sales to Jordan."]

Mr. Chairman,

Such a sale to Jordan presents a significant threat to Israel. And when viewed as part of other sales to the region, particularly to Saudi Arabia, the sale becomes part of an ominous warcloud gathering on Israel's eastern border. Since 1973, Arab states have purchased more than

$100 billion of weaponry, most of it from the United States. [See Appendix V, "Arms Sales to Arab States."]

It should be noted that although Israel accepts a quantitative disadvantage in relation to its neighbors, that gap is growing at a rate where quantity itself is already eroding what Israel has left of a qualitative advantage.

Saudi Arabia has now emerged as a major confrontation state on Israel's eastern front. On March 24, 1982, the Chief of Operations of the Department of Defense's Near East Division, Homer McKalip, told Congress that the United States sales to Saudi Arabia since 1967 amounted to more than $42 billion, with $12 billion of that in the last year alone.

A relatively small military force just a few years ago, Saudi Arabia has acquired armament in both quantity and quality and is becoming a potent military force. Last year's sale of AWACS aircraft and offensive enhancement equipment for the 62 F-15s Saudi Arabia has already ordered will give an Arab army for the first time equipment more advanced than that in Israel's arsenal. Despite presidential pledges to the contrary, these U.S. sales clearly diminish Israel's technological edge.

But perhaps even more threatening and alarming to Israel is the fact that the sale of weapons to Jordan and Saudi Arabia and the relaxation of restrictions on the sale of aircraft to Iraq, Syria and South Yemen have come without any political or diplomatic recompense. To many an observer, the unlimited, reckless pursuit of arms sales is not the proper and responsible means to achieve the sound goal of strategic consensus. To quote an unnamed, ungracious but candid Saudi general, "You [Americans] are just arms salesmen; we [Saudis] pay cash."

This attitude is both alarming and instructive. Middle East Arab states have come to expect much from us and offer nothing in return. The Arab states have redoubled their efforts to pull Egypt away from the peace process. They have increased their political, diplomatic and economic warfare against the Jewish state. They have consistently thwarted U.S. plans, hopes and goals.

Saudi Arabia's actions exemplify this hostility. The Saudis have refused to participate in any way in U.S. defense planning for the region; they have rejected U.S. bases or facilities on Saudi soil; they continue to call Israel their greatest enemy, not the Soviet Union. Saudi Arabia has attempted to pull Oman away from closer cooperation with the United States. The Saudis continue to wage war against the Camp David peace process, with one leader saying recently that the only good thing to come out of Camp David was "the death of Sadat [New York Times, February 9, 1982]." Saudi petrodollars still fund the radical Arab rejectionist front and the terrorist PLO.

It is not just the reckless arms sales that endangers Israel. It is also the reckless abandon with which these sales are conducted. No demands, no punishments have been meted out to these Arab extremists, only blandishments and arms.

## ISRAEL'S ROAD TO PEACE

Despite the threats from its neighbors and the sometimes irresponsible and feckless actions of the United States in the past year, Israel is carrying out her responsibilities of the Egyptian-Israeli Peace Treaty and the Camp David Accords.

On April 26, Israel withdrew from the last remnant of the Sinai and sacrificed the safety it provided. Amid great anxiety and true national trauma, Israel relinquished the last of its airbases, settlements, towns and training grounds in the Sinai.

No one can predict whether the dream of peace envisioned by Anwar Sadat and Menachem Begin will grow into a peaceful reality under Egypt's new leadership. Indeed, there are signs already that Egypt is reluctant to allow peace to grow fully. Nevertheless, the withdrawal has been completed; and Israel may now be militarily weaker, and maybe closer to peace, for it.

Thus, let no one charge that Israel is expansionist, recalcitrant, or intransigent. When offered full recognition as a nation among nations, when given an Arab neighbor willing to make peace, Israel will carry out every sacrifice necessary to achieve peace. At the same time, when its very existence is threatened, when its citizens are denied the right to live peaceful, full lives, Israel will take every measure necessary to protect its security.

Besides the price in security Israel paid by withdrawing from the Sinai buffer, the withdrawal also cost Israel an estimated $17 billion in facilities, infrastructure, oil development, and investment left behind, and $5 billion for new airfields, bases, depots, support facilities and early warning emplacements that must be reconstructed. [See Appendix VI, "Israel's Price for Peace."]

The cost of withdrawal and relocation has been paid in part by generous U.S. assistance, but most of the expense is borne by Israel's citizens who are already among the highest taxed people in the world.

Israel's people also bear the cost for another aspect of the Camp David agreement, and that is in the search for a solution to the Palestinian Arab problem on the West Bank and Gaza. The Israeli government and people do not seek the role of an occupier in these territories. The territories came into Israeli hands as a result of Jordanian aggression in 1967. The continued Israeli control of the region comes only partially from a desire to retain the unity of the Land of Israel which some profess. The real fear is of surrendering the strategically vital highgrounds that once gave Arab gunners the ability to rain death and shrapnel upon Israel's centers of population -- a fear all Israelis possess.

The control also comes by default, from the total rejection by Jordan and the PLO of any recognition, negotiation or compromise with Israel.

Attention and criticism are sometimes given to Jewish life on the once judenrein West Bank. But too little attention is given to the cost to Israel for the services it has extended to the Arab residents of the West Bank and Gaza. The State Department Reports on Human Rights for the last three years attest to the rising standard of living in the regions, the increasing agricultural yields, the improved health care and higher educational levels. To be sure, the situation is far from ideal, but in the absence of Jordanian negotiators called for at Camp David and in the presence of PLO terrorism and incitement against Israeli civilians and Arab moderates, alternatives are rare, and the Israeli public bears the military and economic costs.

## ISRAEL'S ECONOMY

Thus, Mr. Chairman, Israel pays for peace, and it pays for defense.

The Middle East arms race has a direct and devastating impact on Israel's economy. About 25 percent of Israel's GNP goes to defense, compared to approximately six percent in the United States. Much of Israel's outstanding debt is for repayment of defense related loans.

Following earlier withdrawals from Sinai, Israel has had to buy its oil from Egypt, (at a cost of $400-$500 million per year) Mexico, and-on-the-spot market. OPEC oil has been shut off because of the Arab boycott and Arab pressures on non-Arab OPEC members. Once, Israeli oil needs were almost totally met by the oil from the Sinai fields. Israel's oil import bill this year is estimated at approximately $2.5 billion -- roughly equivalent to this year's foreign aid bill and to Israel's projected balance of payments deficit.

Israel has enacted broad and stringent austerity measures that have helped cut Israel's inflation rate from the 1980 high of 133 percent to approximately 100 percent in 1981. But Israel's foreign debt continues to climb, from $15.5 billion in 1979 to $17.4 billion in 1980 to $18.2 billion in 1981. An additional deficit of $2-2.5 billion is now projected for 1982.

The $2.6 billion recommended by the Senate Foreign Relations Committee will help alleviate much of the strain on the Israeli economy, but allow me to remind this committee what it also does for our own U.S. economy. Unlike most other recipients, Israel will spend all the funds allocated in this bill here in the United States. Monies granted and borrowed under the military assistance program are spent here, and Israel's civilian imports from the United States will be nearly double the amount of economic aid Israel is to receive. The results are more American jobs and exports, and a stronger American economy.

We urge this Committee and the Congress to approve the total funding levels and terms of economic and military assistance to Israel recommended by the Senate Foreign Relations Committee. In military assistance, we support the additional $300 million in FMS loans to Israel, all of which is to be forgiven. This increase is intended to help finance Israeli aircraft purchases that were necessitated by the new security requirements created by the sale of F-15 enhancement equipment and AWACS to Saudi Arabia.

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Thank you very much.

Appendix I

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
444 NORTH CAPITOL STREET, N.W. • SUITE 412 • WASHINGTON, D.C. 20001 • (202) 638-2256

June 7, 1982

## ISRAELI MILITARY ACTION IN LEBANON

On June 6, the Government of Israel ordered the Israeli Defense Forces into southern Lebanon with the expressed order to "place all the civilian population of the Galilee beyond the range of the terrorists' fire from Lebanon, where they, their bases and their headquarters are concentrated."

The Israeli operation prompts the following questions:

### WHY DID THE ISRAELI ARMY GO INTO LEBANON NOW?

In July 1981, a "cessation of hostilities" between the PLO and Israel was arranged through the diplomatic efforts of the United States. In the ensuing ten months, however, there have been over 100 PLO violations of the ceasefire.

The violations include:

- infiltrations from Lebanon and Jordan;
- terrorist bombings against Israeli civilians;
- murders of moderate Palestinian Arabs on the West Bank;
- attacks against Israeli and Jewish institutions in Europe;
- attacks against Lebanese Christians in the Christian enclave in southern Lebanon;
- the assassination of an Israeli diplomat in Paris and the attempted assassination of the Israeli Ambassador to London, Shlomo Argov;
- the massive buildup of PLO forces in southern Lebanon.

### WHAT CONSTITUTES A "MASSIVE BUILDUP" BY THE PLO?

In the last year, the forces of the PLO have undergone an alarming transformation from a terrorist force to a full-fledged terrorist army, well-entrenched and reinforced. The PLO has received tanks, artillery and barrage rockets from the Soviet Union, Eastern-Bloc countries, Libya and Syria.

On February 5, 1982, Secretary of State Haig confirmed the PLO buildup:

"It is true that there are reports of levels of both tubed artillery and rocketry moving through Lebanon to the Palestinian forces in southern Lebanon," he told a press conference. "We view the provision of such armaments to Palestinian elements in southern Lebanon as an aggravation of the efforts we have been engaged in to prevent the outbreak of conflict."

It is estimated that prior to the Israeli operation, the PLO had received:

- 70 to 80 Soviet T-54/55 tanks and 60 older T-34 tanks;
- 500 artillery pieces, including 130mm guns, with a 17-mile range;
- Several hundred BM-21 rocket launchers. These vehicles are capable of launching 40 122mm rockets at a time, each with a range of over 12 miles.

### WASN'T THE ISRAELI ATTACK AN OVERREACTION TO THE SHOOTING OF ITS AMBASSADOR?

Again, the shooting of Shlomo Argov in London was only the latest of the scores of PLO-directed and inspired attacks. In fact, Israel reacted in a limited manner to the June 3 attack on Argov by attacking specific PLO bases and headquarters the next day. Those attacks were surgically accurate, pinpointing a major PLO base in Beirut. As reported by Associated Press, "A PLO spokesman...said a sports stadium that houses a major PLO training base sustained direct rocket and bomb hits, and a Beirut Radio broadcast said an arms depot in the stadium exploded under the barrage."

The PLO reacted by launching a major artillery and rocket barrage against 23 Israeli civilian towns and villages on June 5. An estimated 1,000 PLO shells and rockets rained down on these population centers causing heavy damage. Were it not for the extensive network of underground shelters in northern Israel, the loss of civilian life would have been tremendous.

### WHAT ARE ISRAEL'S GOALS IN THE LEBANON OPERATION?

As stated by the Israeli government on June 6, the Israeli army seeks to push the PLO guns out of the range of Israel's borders. In the operation, the Israelis have destroyed PLO emplacements, bases and depots. In the cases of major PLO concentrations, the Israeli Defense Forces are attempting to encircle, isolate and disarm the PLO terrorists.

According to Israeli press accounts on June 6, Prime Minister Begin wrote to President Reagan, saying that Israel's intent was "to push the terrorists 40 kilometers (25 miles) northward."

Also on June 6, the Israeli cabinet issued a statement emphasizing that "the Syrian army (which occupies a large portion of Lebanon) will not be attacked unless it attacks our forces."

### BUT ISN'T THE ISRAELI OPERATION A VIOLATION OF INTERNATIONAL LAW?

The Israeli operation into Lebanon is in accord with international law and the United Nations Charter.

The United Nations stated in a 1970 declaration of principle that, "No state shall organize, assist, foment, finance, incite or tolerate subversive, terrorist or armed activities directed toward the violent overthrow of the regime of another state."

Lebanon, unfortunately, has ceased to be a sovereign nation. The PLO has set up its own army and government within the State of Lebanon. Today, Lebanon is incapable of stopping the PLO's "terrorist armed activities," and Israel has an inherent right (if not a duty to its citizens) to self-defense in accordance with Article 51 of the United Nations Charter.

U.S. Ambassador to the U.N., Jeane Kirkpatrick, told reporters on June 6, "(Israel) would like to see an independent Lebanon with whom they can live in peace....If it is true that the PLO has been shelling Israel from emplacements inside Lebanon, then it would not be unreasonable of Israel to exercise its rights under U.N. Charter, Article 51, which provides for self-defense."

### BUT AREN'T CIVILIANS BEING KILLED IN THE LATEST VIOLENCE?

It is indeed tragic that civilians on both sides have been hit in the latest round of violence. But it must be emphasized that Israel's goals, strategies and tactics are not the inflicting of casualties among civilians, whereas the PLO considers all Israelis to be legitimate targets in their battle to "liberate occupied Palestine." Israel regrets the loss of innocent lives; the PLO exults.

It should also be noted that the PLO has callously and intentionally placed its bases, depots and headquarters within civilian population centers, as evidenced by the large depot in the Beirut sports stadium. These PLO positions are legitimate military targets.

### WHAT SHOULD THE U.S. POSITION BE?

The United States should seek a restoration of the legitimate government of Lebanon, free of PLO and Syrian interference. The United States should work toward establishment of a ceasefire which prohibits another PLO buildup. A strong PLO, armed, trained and financed by the Soviet Union, and which assists other anti-Western terrorists such as the Red Brigade, is not in the U.S. national interest.

Appendix II

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
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JANUARY 28, 1982

# MEMORANDUM

## RED BRIGADE - P.L.O. LINKS

> *"The heart of the Russians' strategy is to provide the terrorist network with the goods and services necessary to undermine the industrialized democracies of the west... and, as Italy's Red Brigades have made clear, the ultimate objective is the 'supreme symbol of multinational imperialism,'--the United States."*
>
> Claire Sterling
> New York Times
> March 1, 1981

The rescue of Brigadier General James Dozier, the capture of Red Brigade members and the uncovering of their arms caches have revealed in vivid detail the links between the Brigade and the PLO. These links have long been known and documented.

PALESTINIAN ARMS HAVE BEEN SUPPLIED TO THE RED BRIGADES according to numerous accounts, including confessions of apprehended Red Brigade leaders. These weapons include Soviet RPG-7 anti-tank missiles and SA-7 anti-aircraft missles.

RED BRIGADE MEMBERS HAVE BEEN TRAINED IN PALESTINIAN CAMPS in South Yemen and Libya.

THE PLO AND THE RED BRIGADES HAVE COOPERATED IN TERRORIST ACTIONS INSIDE AND OUTSIDE ITALY. This cooperation extended to the selection of targets and included the Red Brigades' single most spectacular action, the kidnapping and assassination of Aldo Moro in 1978.

### The Evidence

PALESTINIAN ARMS SUPPLIED TO THE RED BRIGADE:

Economist Foreign Report
February 13, 1980

"Three members of the Italian Red Brigade had been arrested in Italy in posession of SAM-7 surface-to-air missles supplied by the PLO and smuggled into Italy on board a Lebanese vessel....PFLP did not deny involvement in arms smuggling."

Corriere della Sera
April 16, 1980
La Republica
April 16, 1980
La Stampa
April 19, 1980
--cited by Claire Sterling
The Terror Network

"By the late 1970's all the arms reaching the Italians, of whatever make or provenance, save those taken from policemen and carabinieri, were coming from a single distribution center stocked by Palestinian fromations."

Patrizio Peci, Red Brigade
Turin Column Commander and
Member of the High Strategic
Command.

Associated Press
December 24, 1980

"Some jailed Italian terrorist have turned on their comrades, tipping police to the whereabouts of suspected Red Brigades' urban guerrillas, police sources say.

Italian authorities also reportedly have obtained evidence that the Red Brigades obtained most of their arms from extremist factions in Yasser Arafat's Palestinian Liberation Organization.
Italian police have long suspected that Palestinian groups have given arms to Italy's guerrillas, but the new disclosures offer the strongest evidence to date to support their suspicions, the police sources said.

The Rome daily newspaper Il Messaggero and the Rome weekly magazine L'Expresso quoted the informers as telling magistrates that the PLO has given automatic rifles, bazookas, explosives and other weapons to the Red Brigades and Front Line, another leftist froup with close ties to the Red Brigades...

'The Red Brigades have relations with the PLO, not with the (PLO's) leader, but at lower levels. But the (PLO) leaders know about these relations, otherwise they would never have given us the arms,' imprisioned terrorist Patrizio Peci was quoted by L'Expresso as saying in two pages of testimony to investigating magistrate Giancarlo Caselli."

The Terror Network
Claire Sterling
1981

"The Red Brigades Patrizio Peci, formerly of their high strategic command, had linked the PFLP more directly to the Moro tragedy in his marathon confession. Describing two yatchting trips to the Middle East to pack up Palestinian weapons, he had revealed that the Czech-made Skorpion used to murder Moro was consigned to the Brigades' Rome column commander, Matio Moretti, six months before Moro was kidnapped. It seems worth repeating, in this context, that Moretti's second large consignment of Palestinian weapons--machine guns, heavy Energa anti-tank mines, grenades, SAM-7 Strela missiles was shared with the IRA Provisionals, the Basque Etarras, and the German Terrorist underground after Moretti landed in Venice."

Associated Press
November 8, 1981

"Two members of the Leftist Red Brigades who have turned state's witness say they received a shipment of submachine guns and hand grenades from Palestinian guerrillas in Italy, according to court records.
Carlo Bozzo and Gianluigi Cristiani told prosecutor Leonardo Bonsignore they met with several dissent members of the PLO in Mestre, near Venice.

Cristiani told investigators, "Within the organization (PLO) there was a certain group of both low and high level officials, military commanders, who were in favor of it."

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| State Department Briefing<br>January 28, 1982 | "Red Brigade arms have been coming through the Arab World"<br>-Frank H. Perez, Deputy Director of the Office for Combatting Terrorism and the head of the Dozier Working Group.<br>It was also mentioned at the briefing that the Red Brigade's arms, RPG-7's, an anti-tank missile, and SA-7's, were of Soviet manufacture with Palestinian modifications. |

## RED BRIGADE TRAINING IN PLO CAMPS

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|---|---|
| London Daily Telegraph<br>June, 1980 | Robert Moss reports several hundred members of various foreign underground organizations are undergoing training in a Syrian camp known as Hamuriah Camp. Participating are six members of the Red Brigades. |
| The Terror Network<br>Claire Sterling<br>1981 | Describing a South Yemeni camp for training terrorists described by Basque members of the ETA:<br>"Whoever else had been there from Europe, the Italians had been among them. Habash's second-in-command, Bassam Abu Sharif, assured an Italian weekly, after the Spanish Basque story broke that 'the PFLP has taken an assortment of Italian comrades and other nationalities into our camps' (at Hauf, Mukalla and Al-Gheida). He had no idea 'whether, by chance, some Italian comrades from our camps went on to join the Red Brigades.' He should have known, though. Bassam Abu Sharif himself headed the PFLP's liaison committee with the Italian Red Brigades-- confidentially in August, 1978. The report, numbered 050714 was turned over in 1980 to a parliamentary commission investigating Ald Moro's death." |
| Associated Press<br>Dec. 23, 1981 | "Italian prosecutors suspect some members of the Red Brigades may have received training in PLO guerrilla camps in Lebanon." |
| State Department Briefing<br>Jan. 28, 1982 | Acting Director of the Office for Combatting Terrorism and head of the Dozier Working Group, Frank H. Perez: Red Brigade members "may have been trained in Libyan and South Yemeni camps." |

## JOINT PLO-RED BRIGADE ACTION

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|---|---|
| Carlos, Portrait of a Terrorist<br>by Colin Smith<br>1976 | "The Red Brigade was one of many Italian anarchist groups...They had no liaison people in Paris, but the PFLP seems to have found it worthwhile to have some contact with them because of the frequency with which Palestinian terrorist teams entered Europe from the south. The Red Brigade also cooperated in the selection of targets from time to time. The raid Boudia (Mohammed Boudia, an Algerian PFLP operative ) led on the oil refinery in Trieste (on Aug. 4, 1971) was a good example of this." |

| | |
|---|---|
| Federal Broadcast Information Service<br>Cairo MENA<br>April 27, 1978 | Press Conference by Attorney General Ibrahim al-Qalyubi revealing a plan to assassinate "members of one of the joint Egyptian-Israeli committees formed within the framework of the recent peace efforts." Swiss and Palestinian terrorists were apprehended in Egypt on April 26.<br>"Counsellor Ibrahim al-Qalyubi said the members of the terrorist organization (the Khat Fatah as-Sahih, a breakaway group of Fatah) were preparing to contact the Italian Red Brigades organization to involve it in the implementation of a terrorist operation in Switzerland which would have massive repercussions in the Arab world." |
| Avanti<br>August 8, 1978 | The name of the PLO was linked with the murder of Aldo Moro when his murderers found refuge in a PLO camp in Lebanon where they issued statements about the murder. |
| Economist Foreign Report<br>February 13, 1980 | "Italian security experts are convinced... that the murders of Aldo Moro had links with the PFLP." |

## Appendix III

THE WALL STREET JOURNAL,
Thursday, January 14, 1982

# Arafat Says PLO Aids Foreign Guerrilla Units

## Pilots Said to Be Serving In Nicaragua, and Troops In El Salvador, Angola

A WALL STREET JOURNAL *News Roundup*

Palestinian leader Yasser Arafat, in a speech in Beirut last weekend, said that guerrillas from the Palestine Liberation Organization are serving in Nicaragua, El Salvador and Angola.

In New York, the Nicaraguan delegation to the United Nations categorically denied the statement. In Washington, a spokesman for a joint commission of El Salvador rebel organizations said he didn't have enough information to comment. Angolan spokesmen couldn't be reached.

Mr. Arafat's comments appear to confirm some elements of a U.S. State Department paper that claimed that the guerrilla movement in El Salvador was supported by Soviet allies, such as the PLO. The paper was criticized after its release for allegedly sloppy documentation.

Mr. Arafat mentioned the PLO presence in the three countries during an address to the General Federation of Palestinian Writers and Journalists, which was meeting in Beirut to celebrate the 17th anniversary of Mr. Arafat's guerrilla movement, Al Fatah.

Mr. Arafat, in a passage of his speech emphasizing the links between the Palestinian revolution and other "national liberation" groups around the world, said that PLO pilots were serving in Nicaragua, and that other PLO guerrillas were in El Salvador and the African nation of Angola.

"The Palestinian identity is one of revolutionary struggle and universal in its character, not a racist movement," Mr. Arafat said in citing the involvement in the three countries.

The PLO leader didn't explain what the pilots and guerrillas were doing, and other PLO officials in Beirut refused to elaborate on his comments. But Palestinian sources in Beirut said that relations between the PLO and the revolutionary movements in Latin America are more than a decade old, and include various forms of military support.

The U.S. paper also asserted that a Salvadoran guerrilla leader had met with PLO officials in Beirut in August and November 1980, and that "the PLO has trained selected Salvadorans in the Near East and in Nicaragua."

In Washington, the State Department hadn't any comment on PLO activity in Nicaragua, El Salvador and Angola, saying it had only seen news reports and was awaiting more information.

Mr. Arafat's reference to the presence of PLO pilots in Nicaragua was denied by a Nicaraguan diplomat in New York.

Alejandro Bendana, deputy ambassador for Nicaragua to the United Nations, said, "There aren't any Palestinian pilots in Nicaragua. We don't have any guerrillas in Nicaragua any more except for the Samozistas (opponents of the current government). The only people in the regular army and the regular air force are Nicaraguans, and we don't have much of an air force to speak of." He said that Nicaragua is one of nearly 100 countries that recognize the PLO and that the PLO has an office in Managua with which his country has "the best of relations."

A PLO delegation visited Nicaragua and arranged a $12 million loan to the regime, according to the sources. "Since then, we have exchanged several visits," said one Palestinian source.

The sources didn't provide any elaboration of Mr. Arafat's comment about PLO assistance to Angola, which has also received help from Cuban forces in its civil war against pro-Western guerrillas.

### Palestinian Link

Palestinian sources said that PLO relations with the rebels in El Salvador are "relatively deep rooted" because the leader of the Communist Party there, Shafik Handal, is of Palestinian origin. His father is said to have emigrated to El Salvador in 1921 from Bethlehem, in the West Bank area currently occupied by Israel. Mr. Handal's Salvadoran Communist Party is one of five organizations forming the Farabundo Marti rebel coalition that has been battling government forces there.

Sources in Beirut said that Mr. Handal visited Lebanon last March at the invitation of the Democratic Front for the Liberation of Palestine, an avowedly pro-Soviet group under the PLO umbrella. Mr. Handal was also welcomed by other PLO groups, including Mr. Arafat's Fatah.

While in Beirut last March, Mr. Handal said that about 2,000 residents of El Salvador were of Palestinian origin. "I wouldn't be revealing a secret if I say that there are some in our revolutionary cadres who are Arabs," Mr. Handal is said to have told one PLO gathering. He may have been referring to second and third-generation immigrants living in El Salvador, such as himself. The Salvadoran rebel also charged during his visit to Beirut that Israel had been sending military technicians to assist the army of El Salvador.

These Beirut disclosures paralleled some of the information in the State Department paper. That document alleged that Mr. Arafat met the Salvadoran guerrilla leaders in Managua, Nicaragua, on July 22, 1980, and promised them "military equipment, including arms and aircraft."

Appendix IV

NEAR
EAST
REPORT

Washington Weekly on
American Policy in
the Middle East

January 29, 1982
Volume XXVI, No. 5

# The PLO and the Red Brigades in Italy

**Analysis**

The recent notoriety the "Red Brigades" achieved by kidnapping U.S. General Dozier renews interest in the strong links and close cooperation between Italian terrorists and the PLO. The alliance between PLO terrorists and the Red Brigades includes not only operational coordination, but paramilitary training and ideological support.

### Operational Coordination

It has long been established that the PLO maintains a complex network of relations with all the main violent dissident organizations throughout the world. In exchange for providing these organizations with financial aid, training facilities, instructors and arms, the PLO receives cover and logistical assistance for its terrorists outside the Middle East. Occasionally, this cooperation is manifested in joint operations carried out by members of one of the groups together or in coordination with members of the PLO. The Red Brigades are, in this context, a leading ally of the PLO, and particularly, the "Popular Front for the Liberation of Palestine" faction of the PLO.

On March 30, 1978, for example, Italian newspapers reported that the Red Brigade kidnappers and killers of Italian Prime Minister Aldo Moro were almost certainly aided by PLO terrorists. Moreover, a *New York Times Magazine* expose, published on November 2, 1980, states:

"The relationship of the Popular Front for the Liberation of Palestine with underground revolutionary groups in Italy extends beyond use of the Italians' transit facilities and logistical backup for Palestinian operations. On November 7, 1979, Italian police stopped a speeding car on a highway along the Adriatic coast. They found that the occupants of the vehicle, both members of the Red Brigades, were carrying two SAM-7 missiles. The weapons had originated with the PFLP, which had smuggled them into the country on board a small Syrian-crewed ship, the Sidon. Italian security experts believe that the captured SAM-7s were destined for use against Italian political targets, even though the PFLP put out a statement claiming the arms were being transported elsewhere."

PLO-Red Brigade coordinated activity has been noted outside Italy as well. On April 26, 1978, the Egyptian Attorney General exposed the existence of a terror network in Egypt, which included in its ranks a number of Red Brigade members and was coordinated by "Abu Nidal," a prominent Palestinian terrorist leader.

### Paramilitary Training

According to a report in the January 30, 1980 edition of the *International Herald Tribune*, the Red Brigades receive training in the use of Soviet-made SAM-7 anti-aircraft missiles at the Abou Ali Ajad terrorist training center in Iraq. The report was based on an interview with the head of the Italian government's office of security and public order, who stated that "right now the most active terrorist training centers are in the Middle East, especially Iraq". He added that these terror camps are staffed by Cuban, East German, and Palestinian instructors.

In *The Terror Network*, a study of international terrorism, author Claire Sterling makes mention of Red Brigade participation in "a kind of postgraduate school of international terrorism" located in South Yemen, and hosted by "George Habash and his military commander, Wadi Haddad, of the Marxist Popular Front for the Liberation of Palestine". Sterling provides further evidence of the Red Brigade—PLO alliance in an interview she conducted with Patrizio Peci, a former member of the "High Strategic Command" of the Red Brigades. Peci revealed that virtually all the arms reaching the Red Brigades were "coming from a single distribution center stocked by Palestinian formations". This was further substantiated in testimony Peci gave before an investigating magistrate, published in *L'Espresso* on December 21, 1980, in which he stated:

"As far as the Palestinians are concerned, the Red Brigades have relations with the PLO. Not with the highest levels, but with the lowest ones. Nevertheless, the leaders are aware of these relations, otherwise they wouldn't have given us the arms. . . . We actually got from the PLO a supply of arms, explosives, plastic hand grenades, heavy machine-guns, and sterling machine-guns, three-quarters of which were intended for us, while we of the Red Brigades were supposed to keep the remaining fourth in stock, available for the PLO for possible use in Italy. . . . I want it to be clear that, when I spoke of Palestinians and the PLO, I meant the Palestine Liberation Organization, headed by Arafat." □

Appendix V

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
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# MEMORANDUM

MARCH 1982

## PLO BUILDUP IN SOUTHERN LEBANON

In the last year, forces of the Palestine Liberation Organization (PLO) have undergone an alarming transformation from a terrorist force to a full-fledged terrorist army. With its heavy artillery, tanks, armored personnel carriers, and barrage rockets, the PLO unleashed two weeks of attacks against Israel's northern towns in July 1981. In recent months, however, the PLO has exploited the cessation of hostilities by escalating its arms buildup of new Soviet supplies of tanks, artillery and rocketry.

On February 5, 1982, Secretary of State Haig confirmed the PLO buildup. "It is true that there are reports of levels of both tubed artillery and rocketry moving through Lebanon to the Palestinian forces in southern Lebanon," he told a press conference. "We view the provision of such armaments to Palestinian elements in southern Lebanon as an aggravation of the efforts we have been engaged in to prevent the outbreak of conflict."

On the same day, the Kuwait News Agency reported from Damascus that "the Soviet Union has recently supplied the Palestinian resistance [PLO] with $50 million worth of sophisticated weapons.... This arms deal is the result of the talks which Yasir Arafat, leader of the PLO, held in Moscow last October."

Last July, Ahmed Jibril, leader of the Popular Front for the Liberation of Palestine (PFLP) told the Lebanese As Safir that the PLO forces had received "hundreds of millions of dollars" worth of heavy weapons from the Soviets. (New York Times, July 22, 1981)

Armament has also been supplied by Libya, Syria and Saudi Arabia. The PLO arsenal now includes:

T-54 and T-55 tanks. The PLO has an estimated 70-80 of these tanks (AP, Feb. 11, 1982; July 23, 1981) as well as 60 older T-34 tanks. These main battle tanks are equipped with 100mm guns and carry approximately 40 rounds of ammunition.

Cannon. The PLO now has an estimated 500 artillery pieces (AP, Feb. 11, 1982). The artillery includes 130mm cannon with 17-mile range, 122mm, 105mm and 85mm.

SAM missiles. The PLO is now equipped with Soviet and Libyan-supplied SAM 9 batteries and large numbers of SAM 7s.

Artillery rockets. The PLO has now deployed large numbers of BM-21s -- Katyusha, 40-round multiple rocket launchers. These 122mm rockets, with a 12-mile range, are mounted on wheeled vehicles for rapid deployment. During the summer of 1981, hundreds of these rockets rained down on Israeli towns and villages. Were it not for the extensive network of underground shelters in northern Israel, the loss of civilian life would have been tremendous.

Since the July 24, 1981 cessation of hostilities, the PLO has not only received and deployed new arms, but it has also rebuilt forward positions and headquarters and constructed new bunkers (AP, September 3, 1981). PLO terrorist bombings, incursions and assassinations have continued. Five terrorists attempted to cross into Israel from Jordan in late January; three of them were captured and two escaped back to Jordan. They admitted that their mission originated in southern Lebanon. In early March, another three terrorists were caught trying to infiltrate along the Lebanon border.

Appendix VI

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
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## MEMORANDUM

FEBRUARY 1982

## ARMS SALES TO JORDAN

## F-16s and I-HAWKS

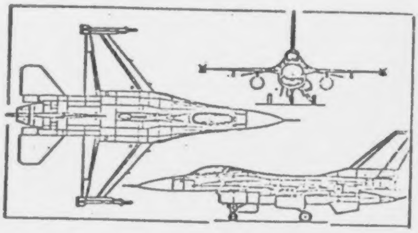
The Reagan Administration is considering the sale of F-16 fighter-bombers and Improved Hawk surface-to-air missiles to Jordan. While Administration officials have denied that a final decision has been made, they confirm that the sale was discussed by King Hussein and Secretary Weinberger.

Congress, undoubtedly, will seek clarification and will raise the following questions:

- Does Jordan require such sophisticated weaponry?
- Will acquisition of such equipment increase the likelihood of Jordanian involvement in future Middle East conflicts?
- Does the sale violate U.S. commitments to maintain Israel's qualitative military advantage?
- Does the sale imperil the security of advanced U.S. military technology?
- Has Jordan lived up to U.S. expectations in Middle East peace negotiations?
- Is the United States providing the equipment because of a Jordanian threat to seek Soviet arms?
- Will the sale further destabilize the Middle East?

### THE EQUIPMENT

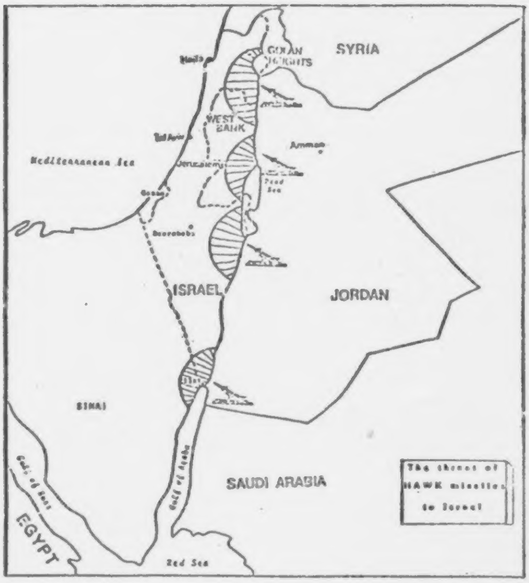
The F-16 is a single-engine, highly maneuverable fighter bomber capable of carrying two anti-aircraft missiles, 20-mm cannon and over 10,000 pounds of bombs, rockets or fuel pods. Capable of Mach-2 speeds, the F-16 has a refueling capability giving it virtually unlimited range. The F-16 is a top-of-the-line, state-of-the-art aircraft. The only other nations in the Middle East possessing the F-16 are Egypt and Israel.



source: Jane's

The Improved Hawk (I-Hawk) is considered to be one of the most sophisticated, reliable and maneuverable missiles in the world. Hawk missiles, flying at supersonic speed, are effective against the full spectrum of tactical aircraft and are capable of evading electronic countermeasures (ECM). The missile guidance system is also considered state-of-the-art.

Although anti-aircraft missiles are often considered defensive in nature, the I-Hawk's range of 25 miles and its exceptional effectiveness against aircraft at both low altitudes and maximum tactical heights give the I-Hawk a potent offensive capability as well. With devastating effectiveness, Arab armies in 1973 used their mobile surface-to-air missiles to cover the surprise attack on Israeli lines in the Sinai and Golan. Scores of Israeli aircraft were downed or damaged as they tried to protect Israeli front lines and push back the invading armies.



JORDANIAN-ISRAELI RELATIONS

In 1948, 1967, and again in 1973, Jordanian armed forces participated in the wars against Israel. In the 1967 Six-Day War, Jordan's King Hussein ignored American and Israeli warnings against joining the war. His troops fired on the Israeli side of Jerusalem; Israel counter-attacked and captured both Arab Jerusalem and the Jordanian-held West Bank of the Jordan River. In 1973, Hussein, citing the lack of an air defense system, refused to attack Israel directly. Instead, he dispatched his crack 40th and 60th Armored Brigades to the Golan Heights where they attacked Israeli positions.

In September 1978, the leaders of the United States, Egypt and Israel concluded agreement on the Camp David Accords which explicitly invited Jordan to participate in the negotiations on the West Bank.

King Hussein rejected the Camp David Accords and joined the Arab Rejectionist Front. At the first Baghdad Arab Summit, Hussein supported the resolution which called on Egypt "not to sign any reconciliation with the enemy." In March 1979, Jordan voted for the second Baghdad Summit resolutions which accused Egypt of "collusion with the United States" and "standing by the side of the Zionist enemy." The second summit demanded that all Arab states sever diplomatic and economic relations with Egypt. Jordan quickly complied.

In May 1981, King Hussein paid his third and latest visit to the Soviet Union. While there he thanked his Soviet hosts for their assistance and for "developing and consolidating the relations between our countries in the spheres of economy, culture, and technical cooperation at all levels." [Pravda, May 27, 1981]

Negotiations on the purchase of $200 million worth of 20 batteries of mobile SAM-8s were believed to have been concluded during Hussein's Moscow visit.

More ominously, however, Hussein in his Kremlin speech attacked Israel's very right to exist -- not just Israel's acquisition of territories after the 1967 war. "Jordan unhesitatingly fulfills its duty in the struggle against Israeli colonialization and occupation of Palestine and other Arab territories," Hussein declared to the Soviets.

Hussein defined the Israeli "occupation" as the "seizure of the entire territory of Palestine... and occupation of other parts of our Arab land adjoining Palestine [presumably, Sinai and Golan]."

---

In July 1980, King Hussein betrayed the "moderate" mantle he wears in the American and western press. Addressing the Islamic Foreign Ministers Conference in Amman, the king repeatedly attacked "the invaders, the Zionist onslaught."

"The Islamic nation and the just believers in any religion and creed will not accept the situation of the land of the Prophet's flight to heaven and the cradle of prophets and divine messages being the captive of Zionist occupation," Hussein declared.

"With the support of the imperialist forces and the collusion of the world centers of power, Zionism continues its attacks and plans of gathering Zionist diehards from all countries of the world and dumping them in Palestine -- the heart of Arabdom and Islam...

"Zionism's illegitimate and inhuman practices are present before your eyes.... Zionism is unjustly and blatantly occupying the land; killing the occupants before everybody's eyes; chasing, terrifying and expelling them, usurping and Judaizing the Arab land; and obliterating the Islamic civilization."

--Amman Domestic Service, July 11, 1980

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JORDANIAN MILITARY CAPABILITY

In the face of Jordan's rejection of peace with Israel and refusal to participate in the Camp David process, Jordan remains a confrontation state facing Israel along a border in excess of 200 miles. If equipped with F-16s and I-Hawk missiles, Jordan will loom large in Israel's threat analyses in the event of increasing tension in the region.

Jordan currently possesses 80 F-5 fighter planes and has ordered 36 French-made Mirage F-1s. Its army consists of at least four fully mechanized armored and infantry divisions equipped with late model M-60A3s and British-made Chieftains.

Jordan's air defense system already consists of 14 batteries of Hawk SAM missiles (although the Joint Chiefs of Staff recommended only six batteries). Jordan has been provided already with over 500 missiles for the Hawk system. In addition, the Jordanian army possesses 300 REDEYE hand-held anti-aircraft missiles and 100 mobile Vulcan six-barrel anti-aircraft guns. It will soon receive 20 batteries of Soviet SAM-8s.

For air defense purposes, the F-5 now in Jordan's order of battle is considered to be a potent interceptor.

In a one-on-one confrontation, Jordan's forces are no match for Israel's armed forces. But few observers predict such an eventuality. Instead, it is likely that Jordan would once again participate in an eastern front war with Israel, a front consisting of Syria, Iraq, Saudi Arabia and Jordan. The combination of forces is a particularly threatening one, especially after Saudi acquisition of AWACS. Close cooperation between the Saudi and Jordanian airforces, both flying U.S.-made aircraft, is likely.

One scenario presented in such a conflict would have Jordanian armor smash across the Jordan River under an anti-aircraft missile umbrella. Jordanian objectives would not be the capture of the West Bank, but the establishment of a beachhead several miles wide on the West Bank (similar to the one gained by Sadat's armies in the Sinai in 1973) or the surrounding of the southern Israeli port of Eilat in the hope of trading Eilat for other areas.

The range of the Hawk would enable Jordan to menace both military and civilian air traffic over Israeli territory.

In the last two years, Jordan has assisted Iraq's war effort by permitting use of port facilities at Aqaba and the use of Jordanian airfields. In early February 1982, Hussein announced the formation of a volunteer brigade of soldiers gathered to fight in the Iraq-Iran war.

Clearly, Hussein is quick and willing to volunteer his army to the service of the "Arab nation." Jordanian possession of advanced arms systems such as the I-Hawk and the F-16 would increase the likelihood of Jordanian involvement in future Middle East conflicts.

Israel, however, presents no threat to King Hussein or to Jordan -- so long as the Jordanians present no threat to Israel. Jordanian-Israeli combat in 1973 took place in Syria, not on Jordanian territory. The fighting in 1967 took place only after Hussein ignored warnings and attacked the Jewish state. Indeed, in 1970, after conferring with the United States, Israel massed armor near the Syrian-Jordanian border to thwart a Syrian invasion of Jordan and to protect Hussein's Hashemite regime.

## SECURITY OF AMERICAN TECHNOLOGY

The F-16 and the I-Hawk are front-line American and NATO weapons. With the introduction of Soviet weapons systems and Soviet technicians to Jordan and with increased Iraqi-Jordanian military cooperation, compromise of the U.S. systems is a very real threat.

There is another threat in Jordan, however, and that is to the continued reign of the Hashemite regime. There have already been an estimated dozen attempts against King Hussein's life. An overthrow of the Hashemite king could bring on a radical Palestinian regime.

The Palestinians make up about 60 percent of the Jordanian population. During the 1970 civil war, when Hussein crushed the PLO, thousands of Palestinians were massacred. Bitter vengeance is still vowed by radical Palestinians. The PLO's Ten Point Plan adopted in 1974, for instance, called for "struggle with the Jordanian national forces for the establishment of a Jordanian-Palestinian national front whose aim is the establishment of a national democratic government in Jordan...."

In the words of former President Jimmy Carter, King Hussein is a "weak king of a weak kingdom." [U.S. News, November 9, 1981]

## AMERICAN-JORDANIAN RELATIONS

Jordanian policy during the last four years has consistently worked against the stated aims of the United States. Jordan has stubbornly rejected all American enticements aimed at eliciting Jordanian support for the Camp David peace process. Since the signing of the Camp David Accords, the United States has provided Jordan with more than $220 million worth of artillery, armored personnel carriers, aircraft and ammunition. In return, the United States has received repeated threats from King Hussein that he will turn to the Soviet Union for his arms.

The Jordanian king has used the threat of arms purchases from the Soviets to pressure the United States on several occasions, most notably in 1964 and 1975.

In 1975, Jordan sought 14 Hawk missile batteries. Both Congress and the Administration understood the Arab threat to Israel and the lack of any Israeli threat to Jordan when they agreed to provide Jordan with non-mobile Hawk missiles. As President Ford told Congress on September 17, 1975, this arrangement would "prohibit the placement of the Hawk weapons under any bi-national or multi-national command structure or military force of which Jordan might become a part....[The] planned configuration of the Hawk installations will clearly demonstrate the intent of the Jordanian Government to use the weapons for purely fixed defensive purposes." [Emphasis added.]

Provision of mobile Improved Hawk missiles now would demonstrate the very opposite intention.

The sale of F-16s and I-Hawks will only encourage Jordan, Syria, Saudi Arabia and other Arab states which reject the peace process between Israel and Egypt to continue their rejectionist policy.

When the Reagan Administration pushed through Congress the sale of AWACS aircraft to Saudi Arabia in October 1981, President Reagan assured Israel that the United States was determined "to help Israel maintain its military and technological advantage."

The sale of F-16 fighter-bombers and I-Hawk missiles to Jordan, however, will only further erode Israel's qualitative edge. [Israel has never possessed a quantitative edge against the Arab states.] At a time of increased tension in the Middle East -- a PLO buildup in southern Lebanon, the assassination of Anwar Sadat, and the imminent Israeli withdrawal from the Sinai -- this sale is ill-timed and ill-conceived.

## CONCLUSIONS

- The sale represents a direct threat to Israel's security.
- The sale of F-16s and I-Hawks to Jordan will increase the likelihood of Jordanian involvement in future Middle East conflicts.
- The sale will imperil the security of advanced U.S. military technology.
- The United States appears to be providing the arms because of a Jordanian threat to go to the Soviet Union. The threats cast doubt on Jordan's reliability as an ally.
- The sale will undermine the U.S. commitment to guarantee Israel's qualitative military advantage.
- Jordan has failed to meet U.S. expectations and interests in joining peace negotiations with Israel.
- The sale will further destabilize the Middle East.

Appendix VII

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
444 NORTH CAPITOL STREET, N.W. • SUITE 412 • WASHINGTON, D.C. 20001 • (202) 638-2256

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## MEMORANDUM

April 1982

### ARMS SALES TO ARAB STATES

MAJOR MILITARY ACQUISITIONS BY THE
ARAB STATES SINCE 1973
(Delivered or on order)

| Country | Amount | Military Items |
|---|---|---|
| Syria | $10.5 billion+ | TU-126 Moss (AWACS); MiG-21, 23, -25 and -27 fighter bombers; Su-7 and Su-20/22 fighter bombers; T-72, T-62 and T-54 tanks; SA-3, SA-6, SA-7 and SA-9 SAMs; Mi-6, Mi-8 and Ka-25 helicopters; Super Frelon and Gazelle helicopters; BTR-60P and -152 APCs, SCUD misssile launchers; artillery; frigates; Milan and HOT anti-tank missiles. |
| Iraq | $ 9.0 billion+ | Mirage F-1 fighter bombers; MiG-21, -23, -25 and -27 fighter bombers; Su-20 fighter bombers; AMX-30 tanks; T-72, T-62, and T-54 tanks; SA-3, SA-6 and SA-7 SAMs; Mi-6 and Mi-8 helicopters; Alouette 111, Super Frelon Gazelle and Puma helicopters; BTR-60P and -152 APCs; SCUD missile launchers;artillery; missile frigates: HOT anti-tank missiles; An-12 and -24 transports. |
| Jordan | $ 2.3 billion+ | Mirage F-1 fighter bombers; F-5E fighter bombers; SA-8, HAWK SAM missile system; Cobra and Alouette 11 helicopters; Chieftain 11 tanks; M-113 APCs; Dragon and TOW anti-tank missiles; self-propelled howitzers. |
| Libya | $ 7.1 billion+ | Mirage F-1 fighter bombers; MiG-23, -25, and -27 fighters; Tu-22 bombers; SS-12 missiles; T-72 and T-62 tanks; SA-3 and SA-6 SAMs; Mi-8 and Mi-24 attack helicopters, patrol boats with sea-to-sea missiles; submarines. |
| Saudi Arabia | $ 70 billion+ | Airborne Warning and Control System (AWACS) aircraft; F-5E and F-15 fighter bombers; mid-air refueling tankers; AMX-10, AMX-30 and M-60 tanks; HAWK, Rapier and Shahine (Crotale) SAMs; Alouette 111. Westland and Huey Cobra helicopters; M-113 APCs; Matra and Sidewinder AIM-9L air-to-air missiles; Maverick PGMs; Glide bombs and cluster bombs; missile boats, patrol ships, landing craft and hovercraft; |

| Country | Amount | Military Items |
|---|---|---|
| | | TOW Dragon and Vigilant anti-tank missiles; KC-130 and C-130 transports; air-bases and military construction. |
| Kuwait | $ 1.8 billion | Mirage F-1 fighter bombers; Jaguar fighter bombers; A-4 Skyhawk attack bombers; Chieftain tanks; HAWK, SA-6 and SA-7 SAMs; Gazelle and Puma helicopters; artillery; FROG rockets, HOT, TOW and Vigilant anti-tank missiles. |
| Morocco | $ 1.8 billion | Mirage F-1 fighter bombers, F-5E fighter bombers, OV-10 Bronco; M-60 and M-48 tanks; Chaparral SAMs; Alouette 111, Gazelle and Puma helicopters; M-113 APCs; VAB armored cars; patrol boats and frigates; ENTAC and TOW anti-tank missiles; C-130 transport aircraft. |
| United Arab Emirates | $ 1.2 billion | Mirage V fighter bombers; HAWK, Crotale and Rapier SAMs; Aloutte 111 and Puma helicopters; Lion tanks; AMX self-propelled howitzers; Vigilant and TOW anti-tank missiles. |
| Oman | $725 million | Jaguar fighter bombers; C-130 transport aircraft; Rapier SAMs; Matra air-to-air missiles; TOW anti-tank missiles; patrol boats; hovercraft. |
| TOTAL: | $104 billion+ | |
| Egypt | $ 7.7 billion | F-16 and F-4 Phantom fighter bombers; Mirage F-1, 111, V, and 2000 fighter bombers; MiG-21, -23 and -27 fighter bombers; Su-20 fighter bombers; Hawkeye airborne early warning aircraft; M60, T-62 and T-54 tanks, SA-3 and SA-6 surface-to-air missile systems; I-HAWK, Crotale and Swingfire SAMs; Westland, Commando, Sea King and Gazelle helicopters; M-113, BTR-60P and-152 armored personnel carriers, SCUD missile launchers; artillery; TOW anti-tank missiles; Otomat missile boats; C-130 transports. |

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SAM - Surface-to-air missile
PGM - Precision guided munitions
APC - Armored personnel carriers

Sources: International Institute for Strategic Studies. The Military Balance (London)

Stockholm International Peace Research Institute (SIPRI), World Armaments and Disarmament (Stockholm)

Defense and Aerospace Marketing Services (DMS) Market Intelligence Reports--Foreign Military Markets: Middle East and Africa (Greenwich, Conn.)

APPENDIX VIII

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
444 NORTH CAPITOL STREET, N.W. • SUITE 412 • WASHINGTON, D.C. 20001 • (202) 638-2256

## MEMORANDUM

April 5, 1982

## ISRAEL'S PRICE FOR PEACE

In return for Egyptian recognition of Israel and the Egyptian signing of the Egypt-Israel peace treaty, Israel agreed to withdraw totally from the Sinai Peninsula. In so doing, Israel is relinquishing tangible strategic and economic assets.

The Sinai, captured in 1967 as a result of Egyptian aggression, is more than 23,000 square miles and has afforded Israel strategic depth, vital military training space, natural defense positions and large quantities of oil.

### Strategic Implications

1. Unlike the Arab states, Israel must rely heavily on its civilian reserve forces. The Sinai withdrawal will increase the burden on Israel's relatively small standing army and make its reserves' mobilization centers more vulnerable to attack.

2. Israeli positions and installations in the Sinai gave Israel accurate advanced-warring of actions on the western side of the Suez Canal and on the eastern coast of the Red Sea and Gulf of Eilat. The early warning stations situated atop high ground cannot be duplicated in the Negev which lacks such topographical characteristics.

3. Israel will no longer have the same capability to patrol the Red Sea and Gulf of Eilat straits. The naval base at Sharm-el-Sheikh gave the Israeli navy the ability to guarantee free passage for its commerce to and from its southern port of Eilat. These international waterways have been illegally blockaded twice by the Arab states. After withdrawal, Israeli naval craft will have to operate from the congested Eilat civilian port -- an area with less than five miles of coastline.

4. The Israeli air force is withdrawing not only from two of the most modern tactical airbases in the world -- Eitam and Etzion -- but also from eight additional airfields in the Sinai. The Sinai also gave the air force large areas for training which will be lost, diminishing the effectiveness of Israel's highly trained pilots -- always cited as the qualitative reason for Israeli air superiority. Simulator training or training missions over the Mediterranean Sea cannot duplicate the actual conditions the Israeli air force must prepare for.

5. Similarly, the Israeli ground forces will be handicapped by the loss of training areas in Sinai. The carrying out of coordinated armored maneuvers in the more densely populated and much smaller Negev will be extremely difficult.

6. Israel's ammunition dumps, logistic centers, and military distribution installations can no longer be dispersed over a large geographic region. Instead, they will have to be concentrated in smaller numbers and area, increasing their vulnerability.

7. Many of the bases and defenses in the eastern Sinai helped to defend not against Egypt but from an eastern front attack by Syria, Iraq, Jordan and Saudi Arabia. Iraq and Syria remain blatently hostile to the idea of peace with Israel and Saudi Arabia and Jordan have made it clear that they have no intention of joining the Camp David peace process.

Practical Aspects of Withdrawal

1. In addition to moving the airfields, some one hundred military installations and bases including the complex early warning stations and the Sharm el-Sheikh naval port have been dismantled; literally tons of equipment have been moved; over 2,700 buildings and other structures have been torn down and then rebuilt; several thousand military vehicles have been moved and relocated; and nearly a million mines have been pulled out and will be relaid. All of this is being done while maintaining a state of constant military readiness in the face of the remaining hostile Arab states.

2. Because of the topography of the Negev, Israel will not only have to construct new early warning systems, but rely more heavily on costly airborne early-warning, and increase its air defense capability.

3. New port facilities will have to be built to accommodate the Gulf of Eilat and Red Sea naval patrols.

4. Entire new towns will have to be built to accommodate all of the extensive services necessary to support the new airbases and army bases.

5. Thousands of miles of roads, hundreds of thousands of miles of electrical cable, communications systems and pipe will be left for the Egyptians. The same infrastructure will have to be rebuilt elsewhere.

6. Israel spent approximately $5 billion on exploration and development of oil facilities in Sinai. In returning the oil fields, Israel has lost its oil self-sufficiency, revenue from the possible export of oil, and is now limited to buying its oil from non-OPEC sources or on the spot market and therefore pays higher prices.

7. Israeli settlers in the Sinai must abandon their homes and their flourishing agricultural and business enterprises which they spent years building in the desert.

As a consequence of the withdrawal, Israel will have sacrificed a $17 billion investment -- of which $12 billion was for the construction of a vast industrial and military infrastructure, and $5 billion for energy exploration and development. In addition, the cost of relocation to the Negev region is an estimated $5 billion.

TABLE I

## MILITARY AND NONMILITARY AID REQUESTS FOR FISCAL 1983 FOR THE MIDDLE EAST

in thousands of dollars

| RECIPIENTS | MILITARY ASSISTANCE | | | DEVELOPMENT GRANTS | ECONOMIC SUPPORT FUND* | | PL 480 (FOOD) | |
|---|---|---|---|---|---|---|---|---|
| | Training Grants | Equipment/Services | | | Grants | Loans | Grants | Sales |
| | | Grants | Credits | | | | | |
| EGYPT | 2,000 | 400,000 | 900,000 | - | 500,000 | 250,000 | 21,344** | 250,000 |
| ISRAEL | - | 500,000 | 1,200,000 | - | 525,000 | 260,000 | - | - |
| JORDAN | 2,000 | - | 75,000 | - | 5,000 | 15,000 | 256 | - |
| LEBANON | 750 | - | 15,000 | - | 8,000 | - | - | - |
| OCCUPIED TERRITORY | - | - | - | - | 6,500 | - | 2,123 | - |
| GAZA | - | - | - | - | | - | (1,227) | - |
| WEST BANK | - | - | - | - | | - | (896) | - |
| OMAN | 100 | - | 40,000 | - | 5,000 | 10,000 | - | - |
| NORTH YEMEN | 1,500 | - | 15,000 | 27,500 | - | - | 498 | - |
| REGIONAL COOPERATION | - | - | - | 4,400 | 8,500 | - | - | - |

### OTHER PROGRAM REQUESTS (Grants in thousands of dollars)

| | |
|---|---|
| UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST | 72,000 |
| SETTLEMENT OF EASTERN EUROPEAN AND SOVIET JEWS IN ISRAEL | 12,500 |
| FACILITIES, EQUIPMENT AND OPERATING EXPENSES FOR AMERICAN SCHOOLS AND HOSPITALS ABROAD (world-wide requests, 7,500)<br>(in 1981, this total included support for 10 Israeli, 3 Lebanese, 1 Egyptian, and 1 West Bank institution) | |
| PEACEKEEPING: United Nations Disengagement Observer Force (UNDOF; Golan Heights) | 10,200 |
| United Nations Interim Force in Lebanon (UNIFIL) | 49,800 |
| Multinational Force and Observers (MFO; Egyptian-Israeli border area) | 34,474 |

* The goal of this category is to promote "economic or political stability." Developmental programs are included -- but many activities that fall within this category do not meet developmental criteria. FCNI has recommended that Economic Support Funds be eliminated and developmental projects transferred to an appropriate economic category -- i.e., rural development, population, health, etc. ** Total subject to adjustment.

SYRIAN-ISRAELI CONFLICT

Senator KASTEN. Tom, thank you very much.

I would like, if I could, to explore point No. 3 on your factsheet on the situation in Lebanon regarding a wider war.

What is your best information as of right now as to what kinds of contact there has been between the Syrian and the Israeli Armed Forces?

Mr. DINE. It is my understanding that as of mid-day this morning six Syrian Migs have been downed by the Israeli Air Force, two of which came down on northern Israel.

Senator KASTEN. Two of which came down on Northern Israel?

Mr. DINE. Fell onto a kibbutz near Matula.

Senator KASTEN. And were those two aircraft in the process of an attack on northern Israel?

Mr. DINE. I do not know the answer to that. The dog fight may have taken place over Lebanese skies and then fallen onto Israel; but I just do not know the details.

I also understand from this morning's conflict that there was armored conflict, tanks, Israeli tanks, Syrian tanks, that engaged each other in the central part of Lebanon near the Bacha Valley.

There has also been Syrian shelling onto northern Israel.

There has been a series of Israeli statements. The Prime Minister made a statement today in the Knesset urging that there would be no engagement between Israel and Syria, and the Israeli Cabinet on Sunday issued a statement seeing no conflict with Syria.

But obviously it is of concern to all of us and a lot will depend, in the next 24 hours, I believe, on where this war goes.

Senator KASTEN. Well, as you know, a number of members of the committee, and I personally, have obviously wanted, as you say in your statement, to work hard to keep the Syrians away in the current conflict, to stay apart from that problem. I know also through personal conversations with people at the State Department that we are doing everything we can in that direction.

I wish you would have been here earlier to listen to the statement of Mr. Basil, representing the American Lebanese League. He finds himself in the same position that you find yourself in, having to change obviously the prepared statement as a result of what has happened.

But he said that he believed that out of this recent outbreak there could be a positive development, suggesting that the Syrians would leave or be forced back; that the military arm of the PLO would be severely hampered and at least kept out of Lebanon, and that there may be a chance for the people of Lebanon to return to a state of normalcy—if you could say that for that country.

Mr. DINE. Right.

Senator KASTEN. And at the same time, that the Israeli forces would also withdraw.

With that regard I am interested in your option of a beefed-up Lebanese army patrolling a widened free space. Do you and do others today look at this scenario as developing in the way that Mr. Basil suggested?

Mr. DINE. The answer is, hopefully, yes.

Just to go back to some of your earlier comments, I feel great sympathy personally toward the Lebanese people and hope that the occupying troops of Syria and the PLO will leave and let that country blossom again. It used to be, as you well know, a free and independent, and highly cultivated country.

I was thinking ahead in preparing my remarks this morning for you—this afternoon—about the upcoming election in Lebanon whereby hopefully there could emerge a government, a central government, and maybe even a strong central government. It is with that in mind that I mentioned—just throwing out ideas, what can we do—a possible beefed-up Lebanese armed force.

Right now the Lebanese Government basically commands where the Lebanese Government sits, period, in that small acre of land in the middle of Beirut and the Presidential palace.

I would hope that the United States would take advantage of this moment, as torn with strife as it is, and try to work for a free and independent Lebanon one more time, to get the Syrians out.

Senator KASTEN. I would like to thank you for your testimony. There may be further questions from other members of the committee. But I would like to thank you very much for your participation and also the participation of AIPAC in helping on a day-to-day basis, providing us with facts on the Middle East.

We have enjoyed working with you and your group, and we look forward to working with you in the following years.

Mr. DINE. Thank you, sir,

Senator KASTEN. Frances E. Neely.

Frances C. Neely is the Legislative Secretary of the Friends Committee on National Legislation. Ms. Neely?

## FRIENDS COMMITTEE ON NATIONAL LEGISLATION

### STATEMENT OF FRANCES E. NEELY, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Ms. NEELY. We appreciate being here, Senator.

I had planned to talk with you about what this subcommittee and the Congress might do to encourage Israel and Egypt to meet their commitment—and I quote from the Framework for Peace drawn up at Camp David—"to reach a just, comprehensive, and durable settlement of the Middle East Conflict."

That subject seems slightly fanciful today, given the tragic dimensions of Israel's march into Lebanon. For years Congress has made emphatically clear that Americans empathize with Israeli fears and dreams, but neither empathy, nor money, nor military hardware has helped the Israeli Government move beyond its passion for geographic security to an acceptance of the Palestinian people.

An Israeli author—and I do not know if I pronounce his name correctly—Amos Oz has bemoaned the fact that Arabs and Israelis are caught in the past. According to Oz, "when they look at each other they see the face of a common former enemy, the European"—and I do not mean to cast reflections on the Europeans, I am merely quoting this Israeli.

"It is Europe"—says Oz—"that shed the blood of the Jews and humiliated and exploited the Arabs. It is Europe that is responsible for the situation where Israelis and Arabs are unable to look into each others eyes and souls without seeing the shadow of the past. If only it were possible"—he suggests—"to banish this horror to the place where it belongs, the stage."

He calls for "sensitivity and creative imagination to help us find a solution which does not endanger the existence of Israel and does not involve exploitation and humiliation for the Arabs."

A Palestinian Catholic priest, whose home is now in Galilee, recently told a Washington Conference, "I am tempted to begin my talk with, 'my God, my God, why hath thou forsaken me'?"

This priest hates violence, he says because his village was destroyed by bombs. The Jews in Israel are there to remain, according to this Palestinian. "They are welcome with us, but without us they are not welcome. And if they want to drive us out they will have to continue to purchase more and more sophisticated weapons. With weapons"—he added—"they will not purchase my heart. And the price of security in the Middle East is my heart."

Unfortuntely, U.S. Middle East policy, as you know so well, Senator, does not speak to the heart, nor does it reflect creative imagination or sensitivity toward all participants in this tragic conflict.

## U.S. SIGNALS SHOULD CONFIRM CONCERN FOR JUST AND COMPREHENSIVE PEACE

We urge you to begin to send other signals to the Middle East, signals that reaffirm U.S. concern for a just and comprehensive peace that can benefit all the people of the area. These signals should indicate that:

(*a*) The United States will no longer tolerate Israel's elastic definition of "defense,"a definition that allows that government to attack at will any country or group that it considers a current or potential threat. As we all know, these current attacks grew out of an assassination attempt on the Israeli Ambassador to Britain.

Now, that attempt may or may not have had anything to do with the PLO. But Israel did not wait for confirmation. Israel breached the U.N. lines in two places with the result that today we have reports in the New York Times—and I am sure you probably read the Times—which indicate that refugees are streaming into Beirut, taking up residence in parks, the entrances to office buildings, and anywhere else they can find shelter.

The New York Times also tells us that the Israelis have dropped leaflets on Sidon, telling the 200,000 Lebanese and Palestinian residents to leave their homes within 2 hours. Now, whether they were able to do so I do not know. You may know.

But it also says the reporters who were in the hills northeast of Sidon were able to watch as three Israeli destroyers fired shells into the town while Israeli Skyhawks bombarded it and the nearby Palestinian refugee camp, and that fires sprang up in the forests, all over the hill sides which shook with the impact of each Israeli bomb.

I cite these happenings to emphasize my hope that the U.S. will no longer tolerate Israel's "elastic" definition of defense.

(*b*) U.S. signals should also indicate that the United States will no longer allow Israel to use American weapons in international attacks or in the occupied territories.

(*c*) The signals should also indicate that the United States wants immediate, broad-based peace negotiations open to all concerned parties, including the PLO. These signals could be transmitted by:

1. Striking all military aid for Middle East countries from the bill before you.

2. Eliminating all economic support moneys for Israel. ESF funds help cover Israeli indebtedness for U.S. military supplies and may be used to help offset expenditures for Israeli settlements in the occupied territories.

You will note in my prepared statement that I suggested withholding some of the ESF funds proposed for Israel instead of all of them. That initial suggestion was based on the belief that a token gesture, such as eliminating some ESF, might give Palestinians in the occupied territories hope that Americans care about them and their dreams.

Now that Israel has carried death and destruction into Lebanon, a slap on the Israeli wrist might be seen as bigotry. The U.S. call for Israeli withdrawal is helpful, but it should be accompanied by U.S. refusal to be a pawn any longer in the cat and mouse game the Israelis are playing with the Palestinians in Lebanon and in the occupied territories.

Although my organization's immediate concern is ending the killing in Lebanon, we are also deeply distressed by Israeli denial of human rights in the occupied territories.

If you have read the Department of State Country Report on Human Rights in Israel and the occupied territories, you will know that the report says that "Israeli settlement activity has adversely affected the livelihood of considerable numbers" of Arabs. "Land utilized by Israel * * * amounts to approximately one-third of the entire West Bank. In many instances those affected have had to leave farming to become day laborers."

So, the Israelis are turning the Arabs into a labor supply factory.

A further problem results from the use of a part of West Bank's limited water resources for Israeli settlements, and I am quoting. This is all quote, except for my aside about the labor force. I am quoting specifically from the Department of State Country Report on Human Rights:

> Israeli water control policies in the West Bank and Gaza ensure that water in the area will be available to support the development and infrastructure of Israeli settlements in the territories. Diversion of new water resources to these settlements deprives Arab agriculture and industry of them.

Now, the Department of State report and/or the press also tell us that elected mayors have been removed from office by the Israelis. I know we are all aware of that.

Collective punishment is applied. Males in villages and refugee camps are sometimes rounded up and held outdoors for extended periods of time, apparently as general punishment for security incidents.

Houses of individuals believed to have been involved in terrorism or security incidents have been demolished or sealed, and families displaced.

Commercial strikes are not allowed. Striking shopkeepers are forced to reopen their shops or their shops are welded shut for varying periods of time as punishment.

All candidates for labor union elections must be approved by Israelis.

Education is tightly controlled, Israeli officials determine which Palestinian youths can go to college; what courses they can take; who can teach them. Schools are closed periodically.

I am not telling you anything you do not know, Senator, but I would like to have it on the record.

In 1981 many activist teachers and school administrators were demoted and/or transferred to sparsely populated districts at the beginning of the fall term. Some 7,500 books have been banned, including some that are available in Israeli institutions. The East Jerusalem Press is highly censured. The Golan Heights was closed to outsiders for weeks after a general strike erupted over Israeli efforts to force residents to accept Israel civilian identification cards.

Not only are we concerned about the denial of human rights in the occupied territories, we are very concerned about the role of Americans in the occupied territories. We are troubled by reports that some of our fellow citizens have become combative settlers. We understand they help comprise a vigilante element that is escalating tension and terrorizing Palestinians.

Congress should be careful not to feed suspicions that the U.S. Government sanctions irresponsible activity by Americans in the occupied territories.

One way to make the U.S. position clear is to withhold Israeli aid funds until Israel takes steps to enter into direct negotiations with the Palestinians.

In conclusion, Senator, I would like to say that we realize that these Israelis and Palestinians are cousins, that they are bound together by blood and by geography. To be helpful, the United States must treasure and support both people. The U.S. commitment to Israel alone has encouraged extremists in both groups, and we see the fruit of U.S. policy in what is going on in Lebanon today.

Thank you.

[The prepared statement of Frances E. Neely follows:]

# PREPARED STATEMENT OF FRANCES E. NEELY

## LEGISLATIVE SECRETARY

## FRIENDS COMMITTEE ON NATIONAL LEGISLATION

I am Frances Neely, Legislative Secretary, Friends Committee on National Legislation. As you know from past appearances before this Subcommittee, the Friends Committee does not purport to speak for all Friends, although Friends have been active in the Middle East since the 1870s.

We appreciate the opportunity to comment on the foreign aid requests for fiscal 1983. Historically the Friends Committee has supported U.S. development programs that benefit the poorer inhabitants of the poorer nations of the globe. We have endorsed U.S. contributions to multilateral programs, such as the UNDP, UNICEF, IDA, and the soft loan windows of the international banks. We have opposed grants and sales of U.S. arms to any nation, as well as construction of bases or stationing of U.S. armed personnel on foreign soil.

We have recommended that the Economic Support Fund be eliminated and ESF projects that meet criteria for economic development activities be transferred to the appropriate categories of agriculture and rural development, population and health, education and human resources, etc. We have suggested that countries needing budget support could be aided in their efforts to obtain help from the International Monetary Fund.

I bring you that same message today, but I want to concentrate on the issue of a just peace in the Middle East.

### THE MIDDLE EAST

Americans are grateful that the provisions of the Egyptian-Israeli Peace Treaty have been implemented and that Israeli withdrawal from Sinai occurred on schedule. Yet much remains to be done to help Israel and Egypt meet their commitment to:

* "reach a just, comprehensive, and durable settlement of the Middle East conflict," including
* "resolution of the Palestinian problem in all its aspects," beginning with
* a transitional arrangement providing "full autonomy" for the people of the West Bank and Gaza (see "Framework for Peace in the Middle East," signed September 17, 1978, by the President of Egypt and the Prime Minister of Israel).

A continuing question before you is: How can U.S. monetary contributions and political policies help advance a comprehensive Arab-Israeli peace?

For years, Congress has made emphatically clear that Americans empathize with Israeli fears and dreams. But Arab-Israeli wounds still fester, and the death toll mounts, partly because of Israeli obsession with territorial security. Israel must be nudged toward the negotiating table--a table set with chairs for all concerned parties, including the PLO.

### Broad-based Negotiations Essential

The Chamber of Commerce of the United States recently produced a radio show entitled *You Can Negotiate Anything*. "The way to negotiate is where both sides win," said one discussant, and "that is possible in every single situation."

In their book, *Getting to Yes*, Roger Fisher and William Ury of the Harvard Negotiation Project suggest that participants in any negotiation should see themselves as attacking the problem, not each other. These authors also remind readers that the object of a negotiation is to satisfy "underlying interests." Focus should be maintained on those interests rather than on negotiating postures which often obscure the parties' real goals.

So, since negotiation is a process in which everyone is expected to win something, what is our nation doing to convince those entities involved in the Middle East conflict that their "underlying interests" will be served by negotiating? FCNL's answer is "very little." For several years, foreign aid requests for Egypt and Israel have been justified as contributing to a comprehensive peace. This aid is supposed to strengthen Egyptian and Israeli self-confidence and sense of security sufficiently to enable them to move forward in the peace process. Unfortunately, the U.S. goal has not been achieved. More weapons have not given Israel a greater sense of security. Yet in this budget, the Administration still hopes to lead Israel to the negotiating table through a sea of arms.

The United States doesn't seem to have any interest in trying to convince Palestinians that they have anything to gain by negotiating with the Israelis. U.S. tear gas and tanks are used in the occupied territories to maintain "order" among Palestinians. U.S. officials denigrate all members of the PLO as terrorists and refuse to talk with them. Yet when Israel attacks the Palestinians in Lebanon, the U.S. urges "restraint" by the PLO. How much restraint can the U.S. expect, if neither we nor the Israelis will talk with the PLO?

## A Gesture Could Help

We urge you to help rectify this shortsighted policy, this seeming callousness, by making a token gesture that might give Palestinians hope that Americans care about them, their lives, their hopes, and their dreams. You can make this gesture by withholding a portion of the nonmilitary funds proposed for Israel. Withholding is urged for six reasons: (1) Israeli settlement of the occupied territories contravenes international law; (2) Americans in the occupied territories are contributing to terrorism and violence; (3) Israel is abridging basic human rights in the occupied territories; (4) U.S. military equipment is being used to control the people of the occupied territories; (5) It is important to let the Palestinians know that we care about them as people; and (6) It is important to let the Israelis know that the only way to assure their future is through peace.

(1) Israeli Settlements. Israeli settlements in the occupied territories are a costly item in the Israeli budget. According to *Newsweek*, April 5,

> The 87 Israeli settlements on the West Bank--mostly compounds of prefabricated houses that dot the hillsides--have not grown spontaneously. Since 1977, Begin and Sharon have devoted an estimated $600 million, often from budgets never fully disclosed to the public, to subsidize the settlements . . . . Pinched by triple-digit inflation and mounting unemployment in Israel, many young people have seized on government subsidies and low mortgages to move into the settlements.

Israeli Ministries of Agriculture and Housing spend $150 million a year in the occupied territories. Expenditures by other ministries are difficult to estimate, because some of their programs are funded on a functional rather than a geographic basis.

Few Americans would want their tax dollars used even indirectly to support these settlements. Although most Americans are probably unaware of restrictions placed on an occupying power under the Geneva Convention on Protection of Civilian Persons, Americans generally react negatively to manipulation of societies and take over of lands and resources by force. According to the Department of State Country Report on Human Rights in Israel and the Occupied Territories,

> Israeli settlement activity in the occupied territories has adversely affected the livelihood of considerable numbers of Arab residents, particularly as the result of the taking of land for settlements and for military use. Land utilized by Israel in this way amounts to approximately one-third of the entire West Bank. In many instances, those affected have had to leave farming to become day laborers . . . A further problem results from the use of a part of the West Bank's limited water resources for Israeli settlements. Israeli water control policies in the West Bank and Gaza ensure that water in the area will be available to support the development of an infrastructure of Israeli settlements in the territories. Diversion of new water resources to these settlements deprives Arab agriculture and industry of them.

(2) The Role of Americans in the Occupied Territories. Many Americans are troubled by reports that some of our fellow citizens have become "combative" settlers. According to governmental sources, Americans help comprise a vigilante element that is escalating tensions and terrorizing Palestinians. Congress should

be careful not to feed suspicions that the U.S. Government sanctions irresponsible and provocative activity by Americans in the occupied territories. One way to make the U.S. position clear is to withhold some Israeli aid funds until Israel takes steps to enter into direct negotiations with the Palestinians.

(3) Denial of Human Rights in the Occupied Territories. Elected mayors have been removed from office by the Israelis. Collective punishment is applied. Males in villages and refugee camps are sometimes rounded up and held outdoors for extended periods of time, apparently as general punishment for security incidents. Houses of individuals believed to have been involved in terrorism or security incidents have been demolished or sealed and families displaced. Commercial strikes are not allowed. Striking shopkeepers are forced to reopen their shops or their shops are welded shut for varying periods of time as punishment. All candidates for labor union elections must be approved by Israelis. Education is tightly controlled--Israeli officials determine which Palestinian youths can go to college, what courses they can take, who can teach them. Schools are closed periodically. In 1981, many activist teachers and school administrators were demoted and/or transferred to sparsely populated districts at the beginning of the fall term. Some 7,500 books have been banned, including some that are available in Israeli institutions. The East Jerusalem press is highly censored. The Golan Heights was closed to outsiders for weeks after a general strike erupted over Israeli efforts to force residents to accept Israeli civilian identification cards.

(4) Use of U.S. Arms to Maintain "Order". It is humiliating for Americans and confusing for Palestinians to know that large quantities of U.S. military equipment have been made available for maintenance of "order" in the occupied territories. U.S. M-16 rifles are used by Israeli soldiers. Empty tear gas cannisters labeled "made in Pennsylvania" are found in the streets of Ramallah. News photos of U.S. tanks in West Bank towns appear in the newspapers next to reports of stone-throwing crowds and children shot in the legs. No occupation is pleasant. Why should the United States support this one?

(5/6) Palestinians/Israelis. These cousins are bound together by blood and by geography. To be helpful, the United States must treasure and support both people. The U.S. commitment to Israel alone has encouraged extremists in both groups. Recent strikes and protests throughout the occupied territories have reminded the world that military might cannot contain an idea or stultify a culture forever. Negotiations are imperative now. We urge this Subcommittee to nudge the parties forward by one small gesture--withholding some of the $785 million requested for nonmilitary aid for Israel. Such a gesture could help reassure the Palestinians that the United States wants them to "win" something. It would give the Israelis a chance to rethink their occupation policy, which is corroding the Israeli dream of social and moral justice. It would also reaffirm the U.S. commitment to a just peace as the only path to survival for both Israelis and Palestinians.

## EPILOG

During the past year, Israel has used U.S. weaponry with increasing frequency to punish and to destroy. Surely the U.S. Congress will not continue to ignore such flagrant disregard of U.S. and international law?

We urge an immediate cutoff of all military aid to Israel, as specified by Sections 3 and 4 of the Arms Export Control Act.

THE NEW YORK TIMES: MAY 19, 1982

# Arabs and Israelis — All Victims Of Europe

By Amos Oz

The real calamity is that both sides are unable to look each other in the eyes, to look into each other's souls. The leaders of Israel and Egypt have signed a peace agreement; the Israeli and Egyptian peoples have not yet arrived at a cordial mutual understanding. Here, perhaps, is the key to the depth of the tragedy.

What does the Israeli see when he looks at the Arab? Frequently he sees the shadow of his persecutors and oppressors in the grim past: Cossacks, dressed now in Arab robes and headcloths, come to continue the work of the pogrom-makers in previous generations, to murder, rape and pillage.

What does the Arab see when he looks at the Israelis? Frequently he sees in them the shadow of his former persecutors and oppressors. Not persecuted Jews trying to be a nation like all the rest, but a continuation of the wily, arrogant, European colonialist and imperialist, come to enslave the East and exploit its wealth by means of technological superiority.

The shadow of the past hangs over this whole conflict. It is Europe, which shed the blood of the Jews, persecuted and annihilated them, Europe which oppressed and humiliated and exploited the Arabs, that is responsible for the situation where Israelis and Arabs are unable to look into each other's eyes and souls without seeing the shadow of the past. The Arabs and the Israelis are both peoples who have experienced humiliation, subjugation, and suffering. But it is only in the framework of Marxist mythology, or in the plays of Bertolt Brecht, that the persecuted and humiliated become "brothers" and forge links of mutual solidarity. In the lives of individuals and of nations, the fiercest conflicts of all are often those between two victims of the same persecutor. The Arabs and the Israelis are two nations who have suffered anguish and humiliations at the hands of Europe. It is tragic that each looks at the other and sees only the face of their common enemy.

Fear and suspicion beget foolishness.

"If you agree to accept our formula," many Arabs say to Israel, "we shall spread the shelter of our protection over you, you will be free to worship in your own way, and the sword of Islam will guard you from all harm. . . ." Such words fuel the flames of the psychological trauma of the Israelis, because they recall what was said to us in the past, with terrible consequences.

Meanwhile the Israelis, for their part, often say something no less obtuse and dangerous to the Arabs: "If only you will accept our peace formula, we shall come to all the Arab countries with our sophisticated scientific and technological expertise, we shall improve your agriculture, set up industries, and bring you into the modern age."

It seems to me that remarks like these from the Israelis only fuel the flames of the Arab trauma. The Arab nations have heard this tune before, precisely from their most wily and brutal oppressors.

And so, before our eyes, both sides are adding fuel to the flames of the suspicion, fear and nightmares of the past. If only it were possible to banish this horror to the place where it belongs: the stage. Tragedy. Comedy. Farce.

It is the propagandists on both sides who are responsible for this idiocy. But blame also attaches to the poets, the writers, and the intellectuals who do not attempt to break down the barriers of the stereotypes created by propaganda. In Egypt, in Israel, and among the Palestinians there ought to be thinkers who can understand the mind of the other side and will tell the politicians and the propagandists what must not be said and how to avoid reopening old wounds. The Israeli does not want to hear remarks about the protection of Islam or about freedom of religion within the Arab world. And the Arabs do not wish Israel to come and modernize them and change their way of life and their values.

Is it possible that writers and ideologists on both sides will perform this task? Will the poets undertake to do what is beyond the power of the politicians, to delve into the depths of the other's soul, to voice his fears and traumas, to concern themselves not with questions of borders and arrangements but with questions of suspicions and anxieties? What is the reason for each side characterizing the other in terms of treachery, cunning, savagery, and arrogance? What are the roots of the sense of injustice and humiliation on both sides?

Above all, we are all now in need of a measure of mutual sensitivity and creative imagination, so that agreement between politicians can open the door to reconciliation between peoples. Sensitivity and creative imagination will help us to find a way which does not endanger the existence of Israel and does not involve exploitation and humiliation for the Arabs.

Is such a way possible? I have no simple answer. But the real question is this: Is it possible that there is no such way — and in that case, where will it all end?

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*Amos Oz is an Israeli writer whose most recent novel is "The Hill Of Evil Counsel." This is excerpted from the April issue of Encounter magazine, published in London. It was translated from the Hebrew by Nicholas de Lange.*

THE WASHINGTON POST: MAY 29, 1982

# CU Conference Focuses on Problems Of Arab Christians in Israel Today

By Marjorie Hyer
Washington Post Staff Writer

He stood at the lectern, a small, intense man, and he chose his opening words carefully, to demand the instant attention of his listeners.

"I am tempted to begin, 'My God, my God, why have You forsaken me?' " said the black-bearded priest. "The cross of Jesus Christ has been a kind of curse on us. Since He was crucified . . . it seems our Via Dolorosa has not come to an end."

The Rev. Elias Chacour, a Roman Catholic priest of the Melkite Byzantine order, a native Palestinian whose home is now in Galilee, was trying to explain the problems of Arab Christians in Israel today.

"From the beginning we have been the mother church of all the churches all over the world," he continued. "As the mother church, we have been told to give, and to give up."

Chacour's thesis, which he expounded to a highly sympathetic conference on Biblical Foundations for Justice in the Holy Land, was that Palestinians displaced from the land that is now Israel were paying for the "blood guilt" Western Christians felt over the Nazi holocaust and the centuries of anti-Semitism that led up to it.

It was a theme that was returned to frequently during the three-day conference at Catholic University that dealt with the Middle East crisis from the Arab perspective. The meeting was sponsored by a diverse group of evangelical Christian, civil rights and American-Arab organizations.

The conference, which continues through today, is part of a continuing tug-of-war for the sympathies and support of American Christians on one of the most emotionally explosive issues today—the conflicting claims of Palestinians and Israelis for territory and security.

D.C. Del. Walter Fauntroy told a prayer breakfast of the conference yesterday that he and other black civil rights leaders went to the Middle East three years ago to try to persuade leaders of the Palestine Liberation Organization and Israel to "make a moratorium on violence and come to the peace table . . . with no conditions."

In remarks liberally salted with Scripture references and reminiscences of past civil rights marches, he continued, "Our appeal, of course, fell on deaf ears, but we hold onto our faith that people of God will overcome, in our generation."

One of the aims of the conference was to counteract the teachings of some right-wing evangelicals that the return of the Jewish people to Israel is a fulfillment of biblical prophecy about Christ's imminent return, a viewpoint frequently articulated by some TV preachers and evangelists.

In a paper to be delivered at today's session, activist evangelical author Wesley Granberg-Michaelson denounced this interpretation as a "form of racism" in which Arabs, including Christian Arabs, "are seen as the enemies of God . . . not as people but as mere pawns in a divine chess game of human history . . . ."

Under such an interpretation, he said, "There is no basis for justice to the Palestinians since God [in this theology] has willed the establishment of Israel . . . . Any grounds for justice toward Arabs is subordinated to God's plan for Israel, and thereby dismissed."

In an exegesis of biblical concepts of God's promises, theologian Rosemary Reuther of Garrett-Evangelical Theological Seminary in Evanston, Ill., differed with fundamentalist views of Israel. She said that God's promise in the Old Testament to give the land of Israel to the Israelites was contingent on their keeping the commandments and "was part of the struggle to build a just society . . . ."

"The gift of the land was not a right," she said, "it was not a property deed."

Reuther pointed out that the book of Leviticus warns that if the Israelites give up their children to the false God, Molech, "the land will vomit you out of it as an abomination."

Seeking to apply that understanding to today's situation in the Middle East, Reuther pondered whether today, Israel, through "endless warfare" might not be "sacrificing one's children to Moloch that was proscribed in Leviticus . . . .

"The return to the land can't be separated from the struggle for justice," she said.

Reuther pointed out that Christianity for centuries has distorted scripture by the most blatant acts of anti-Semitism and persecution and has defended such actions "as divine punishment of the Jews for rejecting Jesus."

In his remarks, Chacour made the distinction that such persecutions, including the "satanic Nazi regime," were committed solely by Western Christianity. "The Orthodox Christians never persecuted the Jews, the Orthodox Christians always wanted to live in peace and love with the Jews, the Moslems, and even the Western Christians," he said.

Assailing the stereotype of all Palestinians as terrorists, Chacour said, "I am not a terrorist." Grasping the edges of his jacket he flung it open and said "I have no bombs. I have never had bombs. Because my village was destroyed by bombs I have a hatred for violence."

The priest continued: "The Jews in Israel are there to remain. They are welcome with us. [But] without us they are not welcome, and if they want to [drive out the Palestinians] they will have to continue to purchase more and more sophisticated weapons. With weapons they will not purchase my heart . . . . The price of security in the Middle East is my heart."

THE WASHINGTON POST: 4/11/82

# Lebanese, PLO Brace for Feared Invasion

By Edward Cody
Washington Post Foreign Service

BEIRUT, April 10—Alarmed by sightings of an Israeli buildup along the border and by repeated threats from Israeli leaders, Palestinians and Lebanese are spending Easter weekend in the grip of an acute war scare.

Yasser Arafat, head of the Palestine Liberation Organization, has warned his officers and allies that Israeli forces are likely to attack within the next few days, PLO officials said. Lebanese President Elias Sarkis called in U.S. Ambassador Robert Dillon twice today to urge Washington's help in heading off a new round of bloodshed. Sarkis also summoned Soviet Ambassador Alexander Soldatov for a separate meeting.

Dillon said after his second meeting with Sarkis that the United States is in constant touch with the Israeli government and is seeking to preserve peace. In response to Lebanese reporters, however, he acknowledged that the situation has become "dangerous."

[Across the border in Israel, the frontier was eerily tranquil Saturday, with no visible troop movement or other signs that an invasion was imminent. Details on Page A12.]

Lebanon also sent a letter to the United Nations Security Council calling the reported troop buildup a violation of U.N. accords. But it stopped short of asking for an emergency meeting of the council.

The tension here was compounded by a feeling of frustration, with the Lebanese government unable to counter the prospect of a new Israeli assault except by pleading for help from the United States, and with PLO commanders aware that their weaponry is no match for Israeli warplanes and armor.

Tensions have been mounting since early in the year, and there have been several false alarms. But various signs in recent days have convinced a growing number of Palestinian, Lebanese and foreign officials that this time the attack is really imminent.

"They will do it," said a well-informed European ambassador. "It is coming."

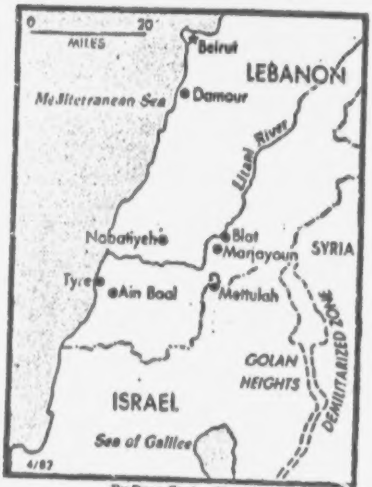
Col. Azmeh Sghaiyer, PLO commander in the Tyre region 12 miles north of the border, said in an interview yesterday that his observers have spotted unusual Israeli troop and armor concentrations near Marjayoun and Blat. Both Lebanese villages lie inside the Israeli-controlled Christian enclave of Lebanese Maj. Saad Haddad and directly across from major Palestinian artillery and rocket posts near Nabatiyeh and a key PLO observation point in Beaufort Castle.

U.N. sources reported sighting large numbers of Israeli tanks on roads just south of the border and inside the Haddad area, where Israeli vehicles move freely. Sarkis was quoted by a spokesman as saying after his first meeting with Dillon that his government had information that two Israeli divisions were poised along the border.

Sghaiyer, in a conversation at his headquarters in the Rachidiyeh refugee camp near Tyre, said the number of Israeli helicopter patrols has increased in recent days over the PLO-controlled city and nearby guerrilla gun emplacements. For 90 minutes Thursday night, he said, a "provocation reconnaissance" helicopter fluttered up and down the coast next to Rachidiyeh. A PLO sentinel was heard reporting by radio the presence of an Israeli gunboat heading south a mile offshore about 2 p.m. yesterday.

An artillery shell that crashed into the village of Ain Baal, west of Tyre, injuring one person, broke an otherwise complete calm that hung over the PLO-controlled border area during a tour yesterday. News agency reports from Israel said one of Haddad's Israeli-supplied tanks was blown up shortly before the shelling by a land mine planted, Haddad charged, by Palestinian infiltrators.

Such exchanges, along with the reported Israeli sea and air patrols, appeared to observers to violate the cease-fire set up by special U.S. envoy Philip C. Habib in July.



By Dave Cook—The Washington Post

Fears have been growing steadily since the killing of an Israeli diplomat in Paris April 3, a slaying Israeli officials blamed on the PLO despite repeated PLO denials. Radical PLO factions, however, have claimed at least two recent grenade attacks against Israeli soldiers in the occupied Gaza Strip.

Those claims ran against the grain of earlier PLO efforts to avoid giving any appearance of violating the cease-fire. Even though he insists the cease-fire does not rule out such attacks inside Israeli-held territory, Arafat had been eager to display to the world his ability to ensure compliance with the agreement.

Palestinian sources said the claims reflected a bitter debate inside the PLO in which some guerrilla leaders were questioning the wisdom of an agreement that tied PLO hands militarily while Israeli soldiers were putting down Palestinian demonstrations on the occupied West Bank.

Syrian President Hafez Assad of Syria, whose 22,000 troops here give him strong influence in PLO councils, is reportedly backing Arafat against other PLO factions.

Diplomatic sources said Syrian troops have pulled back from their southernmost positions just north of Nabatiyeh in recent days, apparently to avoid getting caught up in any Israeli attack.

There has been speculation that an Israeli attack would include an air strike against Syria's Soviet-supplied antiaircraft batteries in eastern Lebanon's Bekaa Valley. To counter that possibility, a Syrian official was quoted in a Syrian-backed Beirut newspaper today as saying the Soviet Union has offered Assad unspecified guarantees of protection for Syrian forces in Lebanon as well as in Syria itself.

After an inspection tour of the border region yesterday, Arafat told his staff that he expected the Israeli attack would center on four targets, PLO officials reported. These were PLO artillery and rocket concentrations in the hills and groves north of Nabatiyeh, the PLO-controlled Tyre region, the Damour area just south of Beirut where guerrilla training camps and weapons are located and PLO offices in Beirut.

Large-scale attacks on Tyre, Damour and Beirut would likely result in civilian casualties. Israeli's air raid last June on PLO headquarters in Beirut took nearly 300 lives, a majority of them reportedly civilians. Sghaiyer indicated northern Israeli settlements would be hit by PLO rockets in retaliation.

"If the Israelis attack, we will respond with all our power against their settlements," he said.

THE CHRISTIAN SCIENCE MONITOR: 4/7/82

# Israeli 'Arabists' urge shutting down West Bank bridges, newspapers

## Plan intended to counter 'politicization' of Arabs

By John Yemma
Staff correspondent of
The Christian Science Monitor

Jerusalem

With the West Bank relatively calm after two weeks of disturbances, Israeli officials are quietly debating a further clampdown.

The same Israeli experts who recommended last month's dismissal of three West Bank mayors – which then led to clashes between Palestinian protesters and Israeli soldiers – are urging Prime Minister Menachem Begin to take two additional steps:

- Shut the bridges between the occupied West Bank and Jordan.
- Further muzzle the free, but heavily censored, West Bank Arab press.

The aim, according to one of the Israeli experts, would be to reduce the "politicization" of West Bank Palestinians, which he argues is due in large part to the anti-Israeli slant of the Arab newspapers published here and to the contact Palestinians have with more radical Arabs outside of Israeli-held territory.

This is the argument of a group of Israeli "Arabists" who are increasingly influential in formulating Israeli policy toward the West Bank. Most highly placed among these Arabists is Menachem Milson, civil administrator of the occupied territories.

A close associate of Professor Milson, Zvi Elpeleg of the Shiloah Institute in Tel Aviv, told the Monitor: "Israel must reassess the benefits and harm caused by the bridges. It is not certain that they are a good thing.

"The [Arab] newspapers," he added, "have poisoned the inhabitants of Arab areas and in east Jerusalem."

Israeli authorities have curtailed circulation of Al Sajr and Al Shaab newspapers and restricted movement of their editors. The newspaper Al Quds, which takes a line more to Israel's liking, is still being distributed in the West Bank and Gaza.

Shutting down Arab newspapers might be perceived as the more draconian act by the outside world, but closing the bridges over the Jordan would seem to present a greater problem for Israeli leaders because the bridges are an economic artery to the occupied territory.

> Israeli authorities have already curtailed circulation of two newspapers and limited editors' movement.

Mr. Elpeleg, who declined the post of civil administrator before it was offered to Mr. Milson, contends Israel could make up any economic losses that would come about as a result of closing the much-traveled bridges.

West Bank farm produce, he says, could simply be shipped out of Israeli ports. The loss of Arab capital that flows into the West Bank via Jordan – including $70 million to $100 million a year in official Arab League assistance as well as individual earnings brought over the bridges – could be compensated for by reducing West Bank municipal budgets and introducing municipal taxation among West Bank Arabs. . . .

THE CHRISTIAN SCIENCE MONITOR: 4/6/82

Joseph C. Harsch

# Sinai tightrope

US government officials responsible for trying to bring peace to the Middle East agree that there is not a thing they dare do between now and April 26 to get the Camp David process going again.

Any pressure from Washington on the government of Israel during this intermediate time could, it is agreed, wreck present progress towards a decisive peace between Israel and Egypt. Washington greatly wants that part of Camp David to be concluded as scheduled on April 25.

So great is the concern about the Israel-Egypt peace settlement that, in effect, it gives Israeli Prime Minister Begin the time to proceed both towards the peace with Egypt and consolidation of Israeli control over the West Bank and Gaza Strip. His progress towards annexation is covered by Washington's anxiety about the peace with Egypt.

The prospect therefore is that by the morning of April 26, when Israeli troops are supposed to be out of the Sinai peninsula, the Israelis will have so consolidated their grip on the West Bank and Gaza that it will be too late for Washington to get Camp David going again.

This means that what Washington has always wanted most out of the Camp David process will be almost hopelessly out of reach.

Step back at this point and consider what each party to Camp David has wanted out of it.

Egypt wanted to regain its lost lands in Sinai and an opportunity to concentrate on its domestic problems free of the danger of another war with Israel.

Israel has wanted peace with its largest Arab neighbor, Egypt. This will give it security on its southern flank and the ability to concentrate on its territorial ambitions to the east and north. . . . .

By the morning of April 26 Israel will have de facto possession of all those lands which Mr. Begin claims.

Can President Reagan then persuade Mr. Begin to let go of those lands and set free the Arabs (1.2 millions of them) who inhabit those lands? The chances are that Mr. Begin will have won a major victory for Israel's expansionists. But it will be a major defeat for American diplomacy and American interests.

THE WASHINGTON POST 4/14/82

# U.S. Aide Can't Visit Goodman

By William Claiborne
Washington Post Foreign Service

JERUSALEM, April 13—U.S. consular officials have been barred by Israeli authorities from meeting with Alan Harry Goodman, the American-Israeli immigrant being held for the shooting rampage in the Dome of the Rock Mosque on Easter.

Israeli officials indicated to Howard Cavalier, a consular officer, that he would not be permitted to interview Goodman, who holds dual U.S.-Israeli citizenship, until after the initial investigation of the attack completed, informed sources said.

In the meantime, the sources said, Goodman, a recent inductee in the Israeli Army, will be treated as an Israeli citizen first and an American citizen second, and he will be tried in a Jerusalem court.

The ruling came as Goodman was remanded without bail for 15 days by a district court judge, following the filming last night of a reenactment of the shooting spree on the Temple Mount of Jerusalem's Old City, where two Arabs were shot to death and at least seven wounded.

Goodman was taken to the Temple Mount under heavy guard where the reenactment of the shooting took place for use as evidence by the prosecution. The 35-acre Temple Mount is site of the temples of Solomon and Herod.

In court today, Goodman was reported to have said he does not want a defense lawyer because he regards the case against him to be more political than legal. The court ruled that a defense attorney will be appointed if Goodman does not obtain his own.

The government's refusal to allow U.S. officials to see Goodman underscored the unique legal status of American Jewish immigrants to Israel who, although swearing allegiance to their new homeland and serving in its armed forces, are permitted to retain U.S. citizenship.

According to officials of the Central Bureau of Statistics, the U.S.-born population of Israel is about 20,000, although that figure does not include Israeli citizens who immigrated here from the United States after being naturalized there. One Israeli official estimated that there are approximately 50,000 American Israeli citizens living here, out of a total population of nearly 4 million. The figure is minuscule when compared with the 6 million Jews who live in the United States, or even the 250,000 Israeli citizens who live in the United States. By comparison, there are 400,000 Israelis who were born in Morocco, and 250,000 who were born in Romania.

The Israeli Army command refused today to disclose how many American Israelis are now on active duty, but one official said the figure may be between 500 and 1,000. The Army considers the size of the armed forces to be classified information, but published reports of the International Institute for Strategic Studies in London put the total Israeli armed forces at about 160,000, with an additional 250,000 active reservists.

Normally, a U.S. citizen who becomes a citizen of another country would be regarded as having voluntarily renounced his American citizenship. But since Israeli citizenship is automatically conferred on immigrants three years after they register as immigrants—unless they specifically ask that it not be conferred—

U.S. courts have held that they do not fulfill the criteria for having voluntarily renounced their citizenship.

is for 30 months, and for immigrant men over 27 years old, there is an abbreviated service obligation that normally involves only six weeks of basic training, with an active reserve obligation to age 55.

As an Israeli citizen with dual nationality, Goodman, who is 38, was drafted into the Army under the abbreviated service program, apparently reporting to a training camp in the West Bank only two weeks ago.

An Army command source said that recruits normally are issued a rifle during the first week of their basic training, and although the policy varies from base to base, they normally take the weapon home with them on leave. Soldiers based in the occupied territories—as Goodman was—are required to carry their weapons with them when they leave base, Army sources said.

It was unclear tonight where Goodman obtained the two magazines of M16 ammunition authorities say he used in the attack. Throughout Israel, however, there is a black market in weapons and ammunition.

Israeli officials generally are reluctant to categorize immigrants by country of origin; they are particularly sensitive about the apparent high proportion of American immigrants in extremist organizations. But one Israeli official, who was born in the United States himself, noted that the Americans who immigrate to Israel come after making a considered decision to abandon one of the highest standards of living in the world to live in a country in which rampant inflation has made it difficult to make ends meet.

"As a result, they generally are highly motivated in their Zionist beliefs. They weren't driven out of anywhere, they came here by choice, and they tend to be more religious than other immigrants," the official said.

Among them, the official noted, are bound to be extremists who would gravitate to militant organizations such as the Jewish Defense League, headed by U.S.-born Rabbi Meir Kahane. The league said that Goodman was not a member of that group—which advocates the expulsion of Arabs from East Jerusalem and the razing of Moslem shrines on the Temple Mount—although police said they found league literature in Goodman's room.

The same principle is extended to Americans who join the Israeli armed forced, which normally is another criterion for determining voluntary renunciation of U.S. citizenship.

Under Israeli law, every citizen is required to serve in the armed forces. For men between the ages of 18 and 26 years, the compulsory service is for three years, with an active reserve obligation to age 55. For men 27 to 29 years old, the Army service

"You have to remember that Israel, because of its nature as a safe haven for Jews, takes in every Jew who comes here. If you are not totally crazy at the airport gate, they let you in, and not only let you in but make you a ward of the state. Unfortunately, some people who come here have fantasies, and before you know it, they are walking around in uniform with a gun and playing out their fantasies," the official said.

THE CHRISTIAN SCIENCE MONITOR: 4/20/82

## The tightening grip on Gaza

# Israel's quest for a secure border

By John Yemma

Staff correspondent of The Christian Science Monitor

Israeli-occupied Gaza

The densely populated Gaza Strip – normally a calm, almost sleepy Palestinian area given to citrus cultivation, fishing, and migrant labor – is experiencing more turmoil today than at any other time in the past decade.

Israeli authorities appear to be undermining the Gaza economy, locking away land and resources, and pressuring Gaza residents to leave. Gazans have responded by taking to the streets in protest, but the Israeli Army has been exceptionally harsh: Since April 12, 130 civilians have been wounded and three killed in clashes with Israeli soldiers.

Behind all this are Israeli preparations for the possibility that the Gaza Strip will be a frontline Israeli security border with Egypt after April 25, if Israel completes its scheduled withdrawal from the neighboring Sinai Peninsula. Although Israel captured both in the 1967 war, only Sinai is to be returned to Egypt.

In recent interviews with the Monitor, Israeli specialists in Arab affairs have indicated that Gaza, unlike the West Bank or Golan Heights, could conceivably be relinquished to at least partial Egyptian control under some future "autonomy" scheme. But the situation on the ground here indicates Israel is intent on keeping Gaza under its control and pressuring Palestinians to emigrate.

"Yes, it is true, people are leaving," says Dr. Heder Abdel Shafi, head of the Gaza Red Crescent (local Red Cross). "They are going to the United States and Latin America. But those who are staying are taking this as a challenge and are determined to hold out."

"The Israelis want to crush the people," contends Gaza Mayor Rachad Shawa. "They want to make them beggars. They want to drive them out of the Gaza Strip and the West Bank."

Mr. Shawa, a longtime moderate among Palestinian leaders, says that in recent months Israeli authorities have been attempting to isolate and weaken the 500,000 Gazans. Their methods have included:

- Travel restrictions. Hundreds of Gazans are barred from visiting the West Bank for "security reasons," and many more West Bankers are kept out of Gaza. Mayor Shawa is under town arrest.
- Economic pressure. Farmers are being denied permission to export their citrus and vegetables across the Jordan River into the Arab world or even into Israel proper.
- Israeli settlements. Although Gaza, with its teeming, impoverished refugee camps, is one of the most populated spots in the Levant, Israel has erected 10 settlements here. The settlements will buffer Gaza from the new Egyptian border.

In addition, two fortified Israeli military outposts were recently set up in Gaza City itself, and a stretch of land north of the city has been declared a military zone closed for development.

Following the April 11 shooting incident at the Temple Mount in Jerusalem, Gaza Palestinians reacted sharply, in some cases raising the Palestinian flag, setting tires alight, and stoning police patrols. A weeklong general strike was scrupulously kept, observers report. But the casualties that resulted have caused Gaza leaders to wonder whether violent resistance is viable.

"The people are defenseless," says Dr. Shafi. "They have been disarmed, harassed, deprived of any real means of facing a determined, overarmed occupier. If it continues this way, it is counterproductive. I believe we should try passive resistance and a boycott of Israel. Stone throwing, I don't agree with."

**The situation on the ground here indicates Israel is intent on keeping Gaza under its control and pressuring Palestinians to emigrate.**

What seem to have hurt Gaza the most are hindrances Israeli authorities have placed in the way of citrus exports.

"We live on the citrus crop," says Mr. Shawa, himself a major citrus grower. "They have stopped all of my export citrus going to Jordan."

Mr. Shawa claims to have lost $100,000 so far this year. Citrus brings an estimated $70 million per year into the Gaza economy.

Both Messrs. Shawa and Shafi admit the 40,000 to 50,000 Gazan workers who drive into Israel daily depend on Israeli wages. But these laborers are coming under increasing social pressure to boycott their jobs during protests.

"Our workers need those jobs," Mr. Shawa says. "But soon even these workers will join the strikes."

In this climate, say the two civic leaders, the possibility of a second step in the Camp David peace process to give West Bank and Gaza residents "self-determination" seems remote.

"No one," says Dr. Shafi, "is talking about coexistence."

THE NEW YORK TIMES: 4/6/82

# Official in Tel Aviv Threatens Action Against the P.L.O. Bases in Lebanon

Special to The New York Times

JERUSALEM, April 5 — Foreign Minister Yitzhak Shamir, speaking at the funeral of an Israeli diplomat slain two days ago in Paris, said today that Israeli forces would strike "without reservation, without end" at bases and headquarters of the Palestine Liberation Organization in Lebanon and elsewhere.

"The Jewish people today has its own state and a defense force," the Foreign Minister said in an emotional graveside eulogy, "and we will activate this force in order to pressure these terrorist organizations — they, their heads, their leaders, their centers, their bases — everywhere that we find them. We will strike at them without reservation, without end, because we have decided to live and to live in peace."

Although his remarks seemed to herald military action against the P.L.O. in Lebanon, another Israeli official said the minister's statement was just "campaign rhetoric" and did not indicate an imminent invasion. The Israeli Cabinet has reportedly considered an invasion and has warned during recent months that Palestinian terrorism against Israelis anywhere would be considered as violating the cease-fire put into effect last July.

Defense Minister Ariel Sharon was understood to have put forward a detailed plan for an extensive invasion of southern Lebanon, aimed at crushing the P.L.O., after five Palestinian guerrillas sneaked across the border from Jordan in late January. His proposal was rejected by Prime Minister Menachem Begin and other key Cabinet members, who were reportedly concerned about political reaction both in the United States and in Israel.

### Political Justification for Invasion

The view prevailed then that an invasion could not be politically justified except by an egregious terrorist attack. Subsequently, several incidents occurred, none of which was considered enough in itself to provoke an invasion: the interception of three Palestinian guerrillas in Lebanon heading for the Israeli border; a grenade attack on an Israeli military vehicle during disorders in the occupied Gaza Strip, killing a sergeant and wounding three other soldiers; the machine-gunning of an Israeli military purchasing office in Paris, in which nobody was hurt, and the wounding of a woman soldier and a civilian — with five others slightly hurt — in another grenade attack in Gaza.

During disturbances on the West Bank, an Israeli border policeman — a member of the Druse sect — was stabbed by a Palestinian Arab. The policeman, identified as Assar Halabi, died today, bringing the death toll in the disturbances to two Israelis and six Palestinians.

A seventh Palestinian was found dead today near the main road between Ramallah and Nablus, on the West Bank. The army spokesman's office said that he had been killed by an explosive device that he was manipulating Sunday night; Palestinian sources quoted local Arab residents as contending that he had been killed by settlers.

### Cabinet Met in Special Session

The Israeli diplomat in Paris, Yacov Barsimantov, was shot in the head Saturday by a woman as he was returning to his apartment with his wife, his son and his daughter.

"This is the face of the Palestinian terrorist organizations," said Foreign Minister Shamir at the funeral near Tel Aviv, "which deal in murder in various places in the world, according to the commands and instructions they receive from the center of terror in Lebanon.

"The bullets which hit our brother Yacov," Mr. Shamir continued, "were aimed at the heart of the people of Israel, they were aimed at the heart of the state of Israel, they were delivered to the heart of every one of us."

Speculation about an imminent military move into Lebanon was heightened Sunday by the Cabinet, which met in the form of a ministerial defense committee and issued no statement on the assassination, other than condolences to the family of Mr. Barsimantov.

THE NEW YORK TIMES: 4/5/82

# Gaza Attack Raises Fears of Reprisal in Beirut

By MARVINE HOWE

Special to The New York Times

BEIRUT, April 5 — A left-wing Palestinian guerrilla group took responsibility today for a grenade attack against an Israeli patrol in the occupied town of Gaza Sunday, prompting new fears that Israel would carry out a retaliatory raid on Palestinian positions in Lebanon.

Heightening the concern was a threat by the Israeli Foreign Minister, Yitzhak Shamir, to strike the Palestinian guerrilla groups "without mercy" at today's funeral for an Israeli diplomat who was slain by a terrorist in Paris Saturday.

The Palestine Liberation Organization issued a firm denial of any connection with the assassination of the Israeli second secretary, but stressed that in any case, the slaying in Paris could not be considered a violation of the cease-fire in southern Lebanon.

### Lebanon Expresses Alarm

The P.L.O. also emphasized that the cease-fire in Lebanon in no way concerned the Palestinian struggle in the Israeli-occupied territories. In an editorial, the official P.L.O. press agency said, "The Palestinian revolution is fighting inside the occupied territories and has every right to do so."

The Lebanese official radio and television expressed alarm that the Israelis would use the assassination of the diplomat in Paris and the Gaza attack as pretexts to strike southern Lebanon.

President Elias Sarkis and other senior Lebanese officials were reportedly concerned over Israeli statements that the Paris assassination constituted a grave violation of the cease-fire in southern Lebanon.

Although it was noted that Mr. Shamir did not directly accuse the P.L.O. of the killing, he said that Palestinian terrorist organizations carried out murders in different parts of the world "on orders from the center of terrorism in Lebanon."

### Arafat Committed to Cease-Fire

The Popular Front for the Liberation of Palestine issued a statement from Damascus saying that it had ordered the attack on the Gaza patrol, in which two Israelis were wounded. The Popular Front is known to have considerable influence in the Gaza Strip. The P.L.O. did not deny the Popular Front's assertion.

Yasir Arafat, who heads the P.L.O. and the largest guerrilla group, Al Fatah, is personally committed to the cease-fire, which was arranged last July by Philip C. Habib, the American special envoy. However, he has had increasing difficulties keeping the smaller radical guerrilla groups in line.

In tonight's statement, the P.L.O. emphasized that the cease-fire agreement "only applies to south Lebanon." This was clearly a move to forestall Israeli reprisals in Lebanon for Palestinian acts elsewhere.

The Arab Revolutionary Brigades Movement, which took responsibility for killing the Israeli diplomat, Yacov Barsimantov, said that the P.L.O. had nothing to do with the attack.

"We are not a regional movement nor is our movement within the P.L.O.," a spokesman for the brigades told the Lebanese daily An Nahar. "It is a pan-Arab movement for the sake of liberating the Arabs and their honor; we struggle side by side with our friends in liberation movements around the world."

THE NEW YORK TIMES: 4/19/82

# Israeli Policy on ID Cards Enrages Golan's Druse

By DAVID K. SHIPLER
Special to The New York Times

MAJDAL SHAMS, Golan Heights — Since the annexation of the Golan Heights last December, the Israeli authorities have been locked in an angry political struggle with the 12,500 Arab Druse residents of the territory, and no early resolution is in sight.

Led by pro-Syrian Druse opposed to the annexation, and intensified by tough Israeli tactics, the confrontation has ended years of mutual tolerance, shattering the calm that once prevailed in the small villages and rolling hills of the heights.

Now hundreds of men, young and old, mill around the village square in Majdal Shams, which is hard by the fortified border with Syria, glaring at Israelis who come through, and talking to reporters in tones of deep fury.

The Druse have recently emerged from an unprecedented blockade of their villages by the Israeli Army, which sealed off the area Feb. 24 in retaliation for a general strike by residents resisting the issuance of Israeli identification cards.

The blockade, which was lifted April 4, barred all Druse from leaving and all outsiders — including both Israelis and foreigners — from entering the area. All telephones were cut off and mail service was halted. Electricity was sporadically turned off in the evenings. Pro-Syrian leaders were arrested.

A delegation of the Israel Association for Civil Rights reported seeing a Druse girl, her eyes bandaged from burns, turned back at an army checkpoint on her way to a hospital because she did not have an Israeli ID card. Other Druse have been barred from traveling to their jobs.

## 'It Is the Law of Barbarians'

"When I hear these stories about identity cards," said Haim Cohen, the former Supreme Court Justice who heads the association, "I ask myself simply, are these Israelis? Is this the Israel defense forces? Are these Israeli soldiers? Is this Israeli law that they are imposing? It is the law of the barbarians. It is something of a shock to see that instead of introducing Israeli law as we know it — and that is a good law and a progressive law and a humanitarian law — they are in effect introducing there some system, some regime of law that has nothing to do with Israeli law at all."

The resulting mood among the Druse is even worse than on Dec. 15, the day after annexation, when elders sat in their stone houses, pointing to photographs of relatives in Syria and declaring with proud indignation that Israel has no right to change their nationality.

Now the atmosphere is one of outrage. The strike continues, and some men in the square shout angrily when they tell their stories.

"Here, the people didn't hurt the army," said Faris Mahmoud, a physics teacher. "Since '67, no soldier was hurt by the people in the Golan Heights. That shows that the people didn't want to attack the soldiers or the Jewish people.

"But I think the Israelis have changed. We are afraid that they will take our irrigation water, and we are afraid they will take us to the army. We are afraid they will take our fields, as they have done in the Galilee and in Nablus" on the West Bank. . . . .

THE NEW YORK TIMES: 4/10/82

# *U.S. Reports Israeli Moves Near Lebanese Border*

## U.S., Reporting Army Activity, Fears Attack May Be Near

By **HEDRICK SMITH**
Special to The New York Times

WASHINGTON, April 9 — Senior Reagan Administration officials reported today that there had been new Israeli military movements near the Lebanese border over the last 72 hours, causing grave American concern about a possible Israeli assault into southern Lebanon.

The State Department, in response to inquiries about an Israeli military buildup, said through a spokesman that it was aware of the reported movements and "an increase in tension in the last few days."

### Reagan Gets Special Briefings

"Once again we renew our appeal to all of those involved or with influence on those involved to show the utmost restraint," the spokesman, Alan Romberg, said. "This is a time for maximum caution. We, for our part, through our continuing contacts with a number of governments, are working energetically to encourage an end to all actions that contribute to tension and violence."

Although officials emphasized that they could not say an Israeli attack against bases of the Palestine Liberation Organization in Lebanon was a certainty, they said President Reagan was being kept abreast of the Middle East situation through special briefings during his stay in Barbados.

White House officials accompanying the President reportedly briefed him late today on what were described as movements of Israeli reserve units and armor, including captured Soviet-made tanks, into northern Israel. Some of the reserve units were reported to be taking over regular army positions, freeing the regular units for possible use in an invasion, American officials said.

In addition, reports from Israel reaching here indicated that some naval commando reserve units have been called up in the last few days and that some regular army officers and enlisted men have not been given their usual Passover leave.

Two days ago Prime Minister Begin and other Government leaders met with Shimon Peres, the Labor Party leader, and other ranking members of the opposition, but there was no press briefing on the meeting. This follows past practice when military matters were discussed, though it has not always meant that military action followed.

### Heavy Fighting Feared

The Reagan Administration fears that if the Israeli leadership has not already decided to attack P.L.O. bases, any shelling or penetration into Israel by Palestinian units in Lebanon now could set off heavy fighting.

The State Department's appeal to restraint on all sides was taken as urging caution not only on Israel but on Palestinian leaders as well.

In the view of American specialists, the probability of an Israeli assault is relatively high now because Syria, with internal security problems, and Iraq, with its war with Iran, are both in a poor position to oppose such an attack. Also, the muddy season in southern Lebanon, considered a deterrent to an attack for the last few months, is now ending.

A month ago American officials feared that the Israelis might attack in early April, before the scheduled Israeli pullout from Sinai on April 25. Egypt would be neutralized by the Sinai issue, they reasoned, and Israel could presumably take the steam out of foreign criticism of an incursion into Lebanon by a timely withdrawal.

American officials noted that world attention is now focused on the Falkland Islands dispute and that Israeli leaders have in the past taken action during crises. In 1956, for instance, the Israelis, British and French invaded Egypt during the Hungarian crisis, and last December Israel annexed the Golan Heights after the Polish crackdown began.

President Reagan was reported to have sent Prime Minister Menachem Begin a personal message earlier this week and to have received a reply. The contents of the exchange were not disclosed, but there were indications that Mr. Reagan had included personal wishes to the Israeli leader, who is suffering from a painful broken hip.

Administration officials said that this week Samuel W. Lewis, the American Ambassador to Israel, conveyed Washington's rising concern about a possible Israeli assault against P.L.O. units in southern Lebanon, where Israel contends there has been a buildup of Palestinian forces in violation of the cease-fire arranged last July 24.

The Israeli Government has told the United States that it blames the P.L.O. for the assassination of an Israeli diplomat in Paris six days ago and also regards the killing as a violation of the cease-fire. American officials say they lack hard evidence that the assassination was the work of the P.L.O.

## ISRAELI-LEBANESE DEVELOPMENTS

Senator **Kasten**. Ms. Neely, thank you for your comments on behalf of the Friends Committee.

I believe you were here during Mr. Basil's statement suggesting that the possible outcome of the present unfortunate violence could be peace in Lebanon, a removal of the Syrians, a diminution of the terrorist PLO influence, and a removal of the Israeli military presence as a final step.

Would you care to comment briefly on those possible developments?

Ms. **Neely**. It is a terribly high price to pay for peace in Lebanon, Senator, as you know, because it involves the destruction of a number of Lebanese as well as Palestinians.

My own group had pressed—and I think we submitted this material to Senators last summer—that: (*a*) Israel should be asked to end its relationship with Haddad and their presence in southern Lebanon: (*b*) that there should be a withdrawal of all military groups from Lebanon—that would include the Syrians and the PLO; (*c*) that there should be a permanent ceasefire, an establishment of UN observation posts throughout the country; that all reconnaissance flights should be under UN control, and that the UN should offer to provide a negotiator and negotiating teams to help the Lebanese negotiate a new political framework.

But we also said that resolution of Lebanon's internal problems is ultimately tied to resolution of the Palestinian-Israeli conflict.

The danger does not lie to the north of Israel. The problem is to the east of Israel, and centers on whether the Israelis are prepared to allow the Palestinians self-determination. Because if the Israelis are prepared to allow the Palestinians self-determination the Palestinian violence might be expected to stop.

Senator **Kasten**. Unfortunately your suggestions obviously were not followed. The Syrian buildup with Russian SAM missiles has been taking place, and the PLO has become more militarily active across that border.

Ms. **Neely**. Senator, could I just respond to the PLO becoming more and more active across the border?

Senator **Kasten**. I would like for you to address yourself to the whole question.

I think that your statement was very thoughtful, and we have had an opportunity to review your prepared statement as well. But one of the big questions that I have after reviewing it is, it seems to me that you are not addressing the fundamental problem which is the terrorist organization and the PLO in itself.

The gentleman representing the Lebanese community pointed out that what they want is to get the Syrians out, get the PLO out——

Ms. **Neely**. And get the Israelis out.

Senator **Kasten**. And have a chance to restore integrity. It seems to me that the problems in the Mideast would be solved a whole lot more rapidly if we were able to get the PLO and the negative terrorist image that they and other terrorist groups have, now spreading across the world, including the Red Brigade and others.

It seems to me that that is the most destabilizing and one of the most difficult and negative influences in the Middle East. Your testimony does not seem to address that, at least with the degree of importance that I would give it.

Ms. NEELY. I appreciate your asking that, Senator. The Friends Committee does not support terrorism; but the United States is promoting terrorism by not being willing to talk to the Palestinians. The PLO is recognized as sort of the government-in-exile of the Palestinians—it does have hospitals, it does have clinics, it does administer schools.

Now, if neither Israel nor the United States will talk to the PLO about their political goals, then of course this encourages the PLO to say that they have to use violence to attain their goals.

We of the Friends Committee believe that talks and negotiations with the PLO are essential. After all, the world is on the verge of a major war in Lebanon because Israel says that the PLO has to be destroyed.

Now, surely, it would be simpler to talk to the PLO first before trying to destroy it. So far as I know, there has been no proof that the PLO was connected with the attempted assassination of the Israeli Ambassador.

The Israelis' definition of terrorism—and I am not denying that there is Palestinian terrorism, obviously there is, just as the Israeli action in Lebanon is terrorism. But the Israeli action is official terrorism and countries tend to support national terrorism—at least there is a place for it, apparently, in international law.

The Israelis' definition of terrorism is terribly elastic, as is their definition of PLO responsibility for it. The PLO is the spokesman of the Palestinians but because the PLO claims to be the spokesman of the Palestinians the Israelis hold the PLO accountable for any act of terrorism anywhere in the world against any Jew.

Now, Senator, you know as well as I do that if you are going to hold one group accountable for any violence in the world against any other group, naturally you are going to have a broad number of examples to draw from.

I went to the Italian Embassy. I asked them about the PLO's relationship to the Red Brigades. They said that none of this had really been proven. In Tom Dine's testimony he talks about PLO involvement in the training of the person who tried to assassinate the Pope. I could not get any verification of that, either. So, I think that——

Senator KASTEN. You were, though, able to get verification of PLO and Red Brigade's connection, there is no question about that. There is Claire Sterling's book and a number of other things, including our own intelligence data from the CIA, the State Department, and the Defense Intelligence Agency, all linking those two groups, along with Soviet support.

Ms. NEELY. You would know more about that than I do. But what I was told was that the Italian Government has never said that any other government or any other institution per se has been connected with the Red Brigades.

Now, there are many elements in the PLO. I am not here to defend any element of the PLO, nor any terrorism that they may have perpetrated. All I am pleading for is for us to look at our goal.

I assume the goal of the United States is a peace in the Middle East that helps everybody. Palestinians are part of that peace that helps everyone. I think it is widely—now maybe it is not believed by the Israelis, I notice Tom Dine mentioned a hundred violations of the ceasefire—but I think it is widely felt by many people that the PLO did in the main abide by the ceasefire across the Lebanese border.

Now, the Israelis interpreted that ceasefire to preclude any violence against Jewish institutions anywhere in the world. This is a very broad interpretation.

But if you interpret the ceasefire as referring just to the Israeli-Lebanese border, then I think there is a general impression that there have been far more Israeli violations of that ceasefire than there had been PLO violations.

I have tried in the last few days—and you probably know this better than I—I have tried to check out how many Israelis were actually killed in the exchange before Israel moved into Lebanon. The New York Times said two. Israel retaliated and I guess it was the Post or maybe it was the Times that said this morning that 234 Palestinians and Lebanese were killed before Israel actually invaded.

I would hope that instead of concentrating on the terrorism one would say, "What is the goal of this terrorism?" If the goal of that terrorism is just murder, that is one thing. If the goal of that terrorism is get the world to listen to the Palestinians, to respond to their hope for self-determination, then I would think we would benefit from listening.

That does not mean that we have to endorse terrorism. But I feel what Israel is doing now in Lebanon is terrorism.

Senator **Kasten**. Thank you for your testimony.

We happen to differ. I do believe that terrorism is fundamentally wrong, no matter what the goal is. I think that we are seeing that terrorism has not had a successful result, ought not to have a successful result, and our government ought not to tolerate it—I do not believe we will—under any circumstance.

I thank you for your testimony. I thank you for appearing before us today.

Ms. **Neely**. Thank you, Senator.

Senator **Kasten**. We look forward to working with you.

Ms. **Neely**. I hope you will urge the U.S. Government to seek to promote the rights of the Palestinian people because that is for the long-range benefit of both Israel and the Palestinians.

Thank you very much.

Senator **Kasten**. Carol Capps.

We are pleased to have Carol Capps, who is the chair of the Work Group of International Development Assistance Policy of the Interreligious Task Force on U.S. Food Policy.

## INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

### STATEMENT OF CAROL CAPPS, CHAIR, WORK GROUP OF INTERNATIONAL DEVELOPMENT ASSISTANCE POLICY, INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

### ACCOMPANIED BY LARRY MINEAR, SECRETARY, INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

### DEVELOPMENT AID AND SECURITY ASSISTANCE

Ms. CAPPS. Thank you, Mr. Chairman. I am accompanied today by Mr. Larry Minear, who is Secretary of the Task Force.

We are pleased, Mr. Chairman, to have the opportunity to testify before this subcommittee today and to continue our dialog with you from previous years. We would like to comment both on the fiscal year 1982 supplemental and on the fiscal year 1983 appropriations request.

As we see it, the main issue in this year's foreign aid debate—as in last year's—is to find an acceptable balance between development aid and security assistance, and one which will sustain the human needs focus of recent years.

Please note that when we refer to security assistance we include both military and economic support fund aid—the two items included by OMB in its budget documents under the heading, "International Security Assistance."

As you recall, last year the process of finding a balance between development aid and security assistance acceptable to a congressional majority was long and arduous, with agreement coming only in the final days of the legislative session.

We were therefore distressed when, just a few months later, the administration submitted a supplemental fiscal year 1982 request of $115,500,000 in new budget authority for military assistance—actually $301,500,000 million including FMS loan guarantees.

In our view, neither international events over the past several months nor the security needs of potential recipients justify the proposed increases. Moreover, to accede to the administration's request would undermine the compromise so carefully worked out last year. We urge the subcommittee to reject the administration's fiscal year 1982 supplemental military aid request.

We are also unable to support the other fiscal year 1982 supplemental request before you—the Caribbean Basin Initiative—in the form requested by the administration. While we commend the administration's intent of fostering self-help efforts in the Caribbean Basin countries, we do not think that an economic aid package comprised wholly of economic support funds will accomplish that purpose.

The administration's proposal is focused entirely on fostering economic growth without any provision for promoting equity along with growth. Given the structural inequities in many countries in the region and the variety of needs in different countries, we feel a combination of economic support fund aid and development assistance would much better serve the development purposes of the CBI. We have therefore proposed:

Conversion of a significant portion of the $350,000,000 in ESF to development assistance in the form of sectoral grants and/or loans.

Redistribution of allocations to correct the proposed concentration in just a few countries.

Earmarking of funds for small-scale business activities and for agencies engaged in people-to-people efforts.

Inclusion of support for regional and international economic and social organizations and activities.

As we noted in our written testimony, the CBI authorization reported by the Senate Foreign Relations Committee includes several provisions which we find clearly preferable to the administration's original proposal. We hope the subcommittee will give sympathetic consideration both to our proposals and to the changes approved by the Foreign Relations Committee. While we are aware that current budget constraints make future commitments difficult, we also feel that a longer term commitment of resources—for a 3- to 5-year period—would be more likely to produce sustainable results.

Our concerns about the administration's fiscal year 1983 appropriations request are similar to those we have expressed about the fiscal year 1982 supplementals. By proposing a large increase in security assistance, especially military aid and very little new funding for development aid, the administration's fiscal year 1983 proposal represents a significant change of focus in the U.S. foreign aid program, making it more keyed to immediate political and security considerations and less responsive to human development needs.

If you look at the chart in our written testimony, figures 1 and 4 on page 3 show the shift away from development assistance that began last year and would markedly increase if the administration's 1983 request is approved as proposed. Figure 1 shows that in fiscal year 1981 development assistance amounted to 63.3 percent of total U.S. foreign aid. The fiscal year 1983 request would bring development assistance down to 51.7 percent of the total, nearly a 12-percent shift from fiscal year 1981 to 1983. The main beneficiary of the shift would be military assistance, which would more than double, from 8.5 percent of the total in fiscal year 1981 to 19.2 percent of all aid in fiscal year 1983.

We oppose both the large increase for military assistance and the continuing shift away from development aid. We are most disturbed by the administration's requested increase in military aid. While we discuss the reasons at greater length in our written statement, let me just note that in contrast to the administration's positive assessment of military aid, our research has turned up a number of negative effects.

Among the more serious are its potential for increasing regional instability and for diverting developing country resources from economic development to support of a larger military establishment. Given the current situation in the Middle East—which so much concern has been expressed about by other speakers today—we fear a further influx of arms, from whatever source, could well have the result of escalating rather than containing the conflict.

We are also disturbed by the administration's tendency to use ESF increasingly as its preferred channel for economic aid. The fiscal year 1983 congressional presentation shows that all but $8 million of a requested $88 million increase over fiscal year 1982 for the Asia Bureau is in ESF. Totals for Latin America and Africa

Bureaus show a net loss on the development side—and increases of $186 million and $48 million respectively in ESF.

While ESF can serve development purposes, several factors dilute its development potential. One is its high concentration in just a few countries—we note that for fiscal year 1983 Egypt and Israel would receive approximately 53 percent of all ESF. Another is its quick disbursing nature—about three-fourths is balance of payment support or commodity import credits. While these types of aid have their place, they provide no good way for targeting assistance to ensure that the poor majority, especially in rural areas, will benefit.

We are also concerned that shifts within development assistance may represent a turning away from a long-term human needs focus. We refer in particular to the administration's proposed cuts in contributions to the development programs of international organizations and to its new private sector emphasis, which we hope will not mean a return to a trickledown approach of the 1960's.

Until the administration is able to show us more clearly how its private sector activities will benefit small entrepreneurs, and particularly the small farmers who comprise the majority of the private sector in most developing countries, we will withhold our support. We oppose cuts in the bilateral health and population accounts in order to fund private sector activities, as requested by the administration.

In summary, these are our recommendations. With regard to the fiscal year 1982 supplemental:

Deny the administration's request for supplemental military assistance for fiscal year 1982.

Modify the CBI to include development assistance.

With regard to the fiscal year 1983 appropriation:

Reject requested increases in military assistance amounting to over $1 billion.

Look for places in the fiscal year 1983 program to cut ESF—and we note that Foreign Relations Committee actions freezing security assistance to El Salvador at fiscal year 1982 levels and denying ESF aid for Zaire offer a good starting point.

We also make some recommendations on the development side, which you have in the statement in front of you.

To conclude briefly. Many traditional supporters of development assistance, of all political persuasions, have indicated that it would be difficult for them to support a foreign aid program which emphasizes security assistance as heavily as does the administration's request. We note that in the Senate Foreign Relations Committee markup Republicans voted against the administration's position on a number of issues.

It is our view that only if the administration's requests are modified to better serve human needs can they command the necessary support for legislative passage.

We acknowledge that enactment of new authorizing and/or appropriations legislation, whatever the nature of it, seems increasingly unlikely. If provision for foreign aid programs is made by continuing resolution, we urge that the most recent congressional consensus, as reflected in the fiscal year 1982–83 authorization and in the fiscal year 1982 appropriation, be respected.

Thank you, Mr. Chairman.

[The prepared statement of Carol Capps follows:]

## PREPARED STATEMENT OF CAROL CAPPS, CHAIR

## WORK GROUP OF INTERNATIONAL DEVELOPMENT ASSISTANCE POLICY

## INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

I am Carol Capps, chair of the Interreligious Taskforce on US Food Policy's Work Group on International Development Assistance Policy and associate for development policy of Church World Service/Lutheran World Relief.

The Taskforce welcomes the opportunity to appear before this Subcommittee as it reviews issues related to appropriate levels of funding for US foreign aid. Since the Taskforce was established in 1974, we have appeared before this Subcommittee on several occasions and have submitted written testimony for the record on others.

As you will recall, our Taskforce is a coalition of over two dozen national Protestant, Roman Catholic, Jewish, and ecumenical agencies whose representatives work together to secure justice for the world's poor and hungry people. A major goal is to promote US assistance policies and programs which will alleviate poverty and improve the lives of the poorest people in the developing countries.

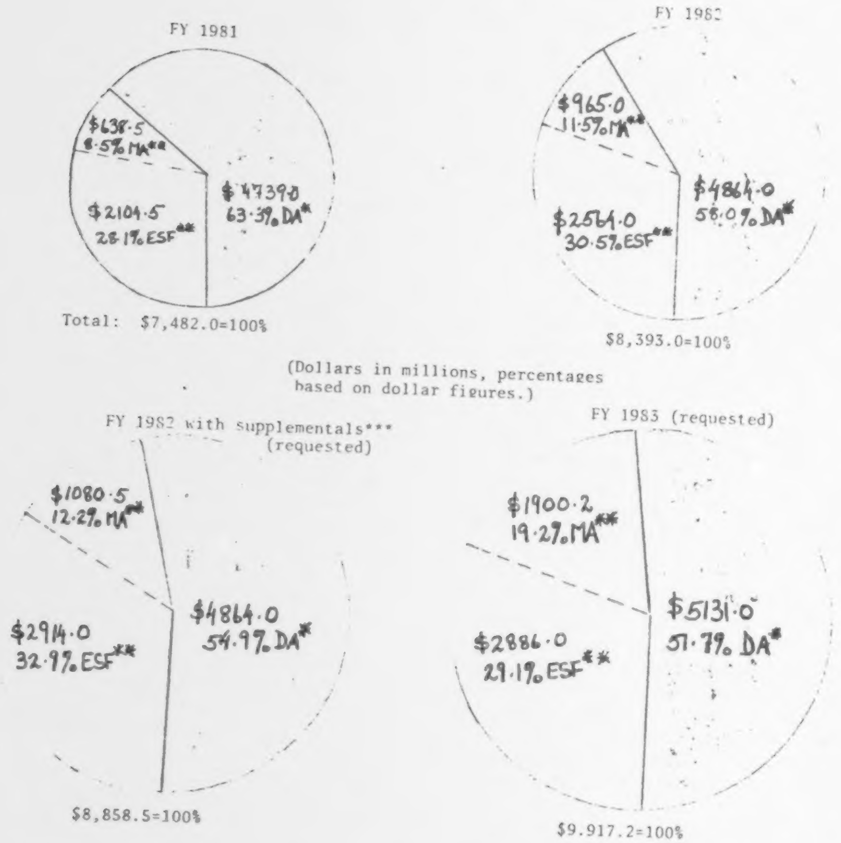
The basic thrust of our statement this year is that, despite budgetary pressures to reduce funding for international basic human needs programs and Administration pressures to accelerate the shift in US foreign aid toward a more military and political orientation, the Congress and the United States should sustain the human needs focus of recent years. Our nation needs sizeable, effective, and responsive programs, both multilateral and bilateral, which help developing countries become more self-reliant in meeting the human needs of their people. Only if we remain committed to such programs and do not allow ourselves to be diverted from them by security objectives unrelated to development needs can we work effectively to promote sustainable, long-term development in poor Third World countries.

### FY 83 Issues: A Further Tilt Toward Security Assistance

The issue of the appropriate proportions between development and security assistance was the major issue in last year's foreign aid debate. As a comparison between Figures 1 and 2 on the accompanying chart shows, a shift of 5.3 percent from development assistance to security aid took place last year in the US foreign aid program. As damaging as the shift was to the orientation of US assistance toward the poor, the shift would have been even greater had Congress agreed to the levels requested by the Administration. After two years of funding programs on continuing resolution, Congress was able to adopt an appropriations bill in the final days of the session only when a compromise was worked out which carefully balanced levels for security assistance against those for development aid.

The preeminent issue this year is again that of the proper division of foreign aid funds between development and security assistance. The question of proportionate funding arises first with respect to the Administration's supplemental appropriations request for FY 82--specifically the Caribbean Basin Initiative and the FY 82 supplemental military assistance request. The Administration's proposed additional funding, if approved, would undo the careful balancing among elements of the foreign aid package which was the precondition for getting the FY 82 bill enacted.

FOREIGN ASSISTANCE BUDGET OVERVIEW



* Development Assistance (DA): PL 480, multilateral economic assistance through the multilateral development banks and international organizations and programs (but excluding the US contribution to the International Monetary Fund), AID's development assistance accounts, American Schools and Hospitals Abroad, disaster and refugee assistance, the Sahel development program, AID operating expenses, the Inter-American Foundation, the Peace Corps, and the State Department's refugee and migration accounts. (shaded)

Security Assistance: Broken down into two components--Economic Support Fund (ESF) and Military Assistance (MA). Military Assistance includes Foreign Military Credit Sales, International Military Education and Training, and Military Assistance Program. (unshaded)

*** Supplementals for FY 1982 include $350 million Economic Support Funds for the Caribbean Basin Initiative and an expected additional $115.5 million for foreign military aid worldwide.

As indicated by Figure 3 in the chart on page 3, requests for an additional $350 million in ESF and $115.5 million in military assistance represent a shift of 3 percent overall in the direction of increased security assistance. We urge the Subcommittee and the Congress to resist upsetting the balance so carefully worked out last December by approving neither supplemental as requested.

We would favor rejecting the military assistance supplemental out of hand because it tilts the balance much too far in the direction of military assistance. Later in our testimony we elaborate on reasons why we are opposed to increases in military assistance.

With respect to the Caribbean Basin Initiative (CBI), as advocates of self-help development we welcome the Administration's intent to launch a more focused effort to help our Caribbean and Central American neighbors help themselves. As we indicated in our written statement to the Senate Foreign Relations Committee, however, we would not be able to support an economic aid package for the Caribbean area comprised wholly of Economic Support Fund assistance, designed to meet immediate economic needs of the area but doing little to promote longer-term development. A basic flaw of the CBI as proposed is its assumption that economic growth alone is a sufficient remedy for the faltering economic prospects of many of the countries in the region. By omitting any provisions to ensure that the poor majority will benefit from the proposed economic aid--indeed by omitting any reference to the poor at all--the CBI ignores the structural inequities that are both a cause of instability and a barrier to development in the region.

We therefore suggested a number of changes in the economic assistance provisions which we feel would improve the potential of the CBI for fostering long-term development in the area. The changes we urged are as follows:

+ convert a significant portion of the $350 million economic assistance (ESF) to development aid in the form of sectoral grants and/or loans;

+ distribute the country allocations of economic aid to reflect human need and recipient governments' commitments to equitable development;

+ earmark funds for small-scale business support and for agencies engaged in people-to-people efforts;

+ provide support for regional and international economic and social organizations and activities; and

+ convert the economic package into a longer term commitment of at least five years.

In our view, the bill reported out by the Senate Foreign Relations Committee offers a number of clear advantages over the Administration's proposal. We support, in particular, provisions:

+ requiring that 20 percent of the local currencies generated by balance of payments support under the CBI be used for development activities in support of the objectives of Sections 103-106 of the Foreign Assistance Act; and

+ providing that at least $10 million be allocated for activities of private and voluntary organizations and at least $7.5 million for scholarships and training in the US.

Channeling funds through a special Caribbean Trust Fund set up in the World Bank, while a very different approach from that proposed by the

Administration, deserves sympathetic consideration. In our view, the advantages of a multilateral approach are many. A multilateral fund would (1) provide a mechanism for encouraging broader donor participation in support of development activities in the Caribbean Basin region; (2) promote better coordination of, and avoid duplication among, donors; and (3) avoid some of the suspicions engendered by an exclusively bilateral approach.

As for FY 83, Figure 4 on the chart indicates that the Administration's request would shift 6.3 percent from development assistance to security assistance (over FY 82 levels as enacted) in the context of an overall 18 percent increase in foreign aid. The Administration's request, if approved, would result in an 11.7 percent redistribution of aid from development to security assistance over a two-year period.

The FY 83 request proposes a very small increase in development assistance of 5.5 percent ($267 million) over already approved FY 82 levels while requesting an increase of 35.2 percent (over $1.2 billion) for security assistance. This amounts to about five new dollars in security assistance for each new dollar in development assistance. Much of the increase in security assistance would be in military aid, including a doubling of foreign military sales credits (FMS), from $750 million in FY 82 to more than $1.7 billion in FY 83. If one adds in the requested increase in loan guarantees for FMS (from $3 billion in FY 82 to $3.9 billion in FY 83 with an additional $186 million supplemental request), the scope of the requested increase in military assistance is even more alarming. We offer below the reasons why we oppose the proposed increases in security assistance.

## Military Assistance

In our view, the request for an increase in military aid of this magnitude ought to be rejected because it proposes the wrong solution for dealing with instability in the Third World. Instability in developing countries is much more likely to result from internal economic and social problems than from external threats. Increased military aid will not only not solve the underlying causes of instability; it may even increase them by fueling an arms race among Third World countries and encouraging a shift of domestic resources from economic development to the military. Negative economic and social consequences of such a shift include slowed economic growth, lower food production, a worsened income distribution, inflation, and increased debt.

Moreover, military assistance frequently reinforces the authority of military establishments, including repressive regimes, in the Third World. Weapons and training supplied for defensive purposes by the US are sometimes diverted to domestic control purposes and contribute to human rights violations. Militarization of the political process works against the process of peaceful change to meet basic human needs.

Because of the potential negative consequences of military assistance, we reject the notion that increased emphasis on military assistance is a helpful way to promote longer-term stability and security within and among developing countries.

## Economic Support Fund

While we acknowledge that Economic Support Fund assistance can to some extent serve development purposes, our research has convinced us that it is not the wisest use of development resources. ESF does not, for the most part, address the unmet human needs of the poor which underlie much of the insecurity and unrest in the Third World. It frequently is not tied to commitments by Third World governments on the use of such funds to benefit the poor. Given the lack of such commitments, the overriding political rationale for the assistance often makes US insistence on effective performance difficult. Moreover, ESF allocations favor certain key countries to the detriment of others which often have more critical needs.

As we have noted in testimony before, the heavy concentration of ESF in the Middle East means that less aid is available to meet the needs of poorer but less politically or strategically important countries in other regions. Next year Egypt is slated to receive more US aid than all of Latin America and Sub-Saharan Africa combined, Israel more than all US multilateral development contributions. The large volume of aid to Egypt may be increasing that country's dependence on future US aid and encouraging and permitting Egypt to avoid making some internal economic policy changes essential to long-run stabilization of its economy. While ESF is less potentially damaging than military aid, our preference would be for less ESF and more development assistance designed to meet long-term development needs, targeted to the neediest countries, and focused in sectors and projects where it will benefit the poor majority and promote self-reliant development.

With respect to assistance to El Salvador, we urge the Subcommittee to pay heed to the Senate Foreign Relations Committee decision holding both military and Economic Support Fund assistance to that country at FY 82 levels pending clarification of that government's intentions on land reform. While our preference would be to cut off assistance to El Salvador (except for humanitarian aid) altogether, we view the action of the Committee as a step in the right direction. The Committee's decision sends a clear and necessary signal to the Salvadoran government that commitment to reform is an essential pre-condition for continued high levels of US aid.

## Development Assistance: Less Human Needs Oriented?

In addition to our concerns about the Administration's proposed shift to security assistance, we also have serious reservations about some changes in emphasis and projected shifts of funds within the development assistance request. We would like to highlight two concerns in particular with respect to bilateral development assistance.

(1) This year's AID proposal reflects a new policy thrust toward greater involvement of private enterprise in development activities, one which appears to absorb most of the modest increases in development assistance proposed for FY 83.

The opening statement by the AID Administrator in this year's Congressional Presentation (CP) is strikingly different in approach from those of recent years. It heavily emphasizes the role of the private sector and of trade in international development. The poor majority in developing countries are mentioned almost as an afterthought. We believe that the underlying assumptions and programmatic specifics of this approach deserve careful review. We are concerned that these new policies may mark a turning away from the congressionally mandated basic human needs priority. For example, CP materials emphasize efforts to promote policy reforms in developing countries leading to more favorable investment climates for US and local private interests. In testimony before this Subcommittee, Elise DuPont, Assistant Administrator of the Bureau for Private Enterprise, indicated that in addition to the $23 million allocated for that Bureau for FY 83, another $100 million would be set aside from the AID regional bureaus for private sector activities. The scale of resources applied to this use suggests that the Administration may be, in effect, creating a major new direction without requesting a new functional account to provide the necessary policy parameters.

We acknowledge that some of the initiatives proposed under private sector activities could serve useful development purposes. However, we find no clear-cut definition of what the Administration envisions as private sector activities. There is mention of support for management training and for large- and small-scale business, intermediate credit institutions and agribusiness. But a glaring omission from this list is small farmers, who constitute a large portion of the private sector in many poor developing countries. We are therefore concerned that some of the private sector initiatives proposed by the Administration might well prove damaging to long-term self-reliant development which requires special attention to the role of small farmers and landless laborers. For example, the CP cites the Latin American Agribusiness Development (LAAD) Corporation as an example of successful private enterprise involvement in development. A 1974 AID-sponsored evaluation found that LAAD's activities had almost no positive impact on small farmers and cooperatives. Since no increase is requested for the Agriculture, Rural Development, and Nutrition account we fear that programs promoting agribusiness ventures in developing countries will be financed with funds previously geared specially to assisting small farmers.

(2) Also of particular concern to us is the proposed decrease of more than $19 million in the bilateral health account. We see no justification for this cut. Even minimal health care is as yet unavailable to the majority of the rural poor in many developing countries. Unsafe water and lack of sanitation facilities mean continuing high incidence of water-borne disease. As evidence of US commitment to the goals of the International Water Decade, we urge that the allocation for the health account, from which most AID funds for water and sanitation come, be raised at least to the FY 82 level.

A second set of concerns relates to the Administration's approach to participation in multilateral aid efforts, particularly over the longer-term. We are pleased that the Administration is going forward with a request for $945 million for the International Development Association (IDA), although we note that US payments to IDA VI have already been stretched out from a three-year commitment to probably five. We are also happy that the Administration is requesting $65.4 million for the International Fund for Agricultural Development (IFAD) as the first step toward making good on the US pledge to that organization.

On the other hand, the significant cut of $42 million proposed in US contributions to international organizations and announced Administration intentions of cutting back on contributions to future replenishments for the multilateral development banks, particularly the soft-loan windows, lead us to believe that the Administration plans to shift increasingly to a "go-it-alone" approach in the future. Such a shift would conform to earlier expressed Administration preferences for bilateral over multilateral aid. In our view, scaling back US participation in multilateral institutions would be a mistake. It overlooks the fact that each dollar contributed by the US to multilateral aid efforts generates additional dollars in contributions by other governments, augmenting the total effort substantially. Cutting back on US contributions to multilateral institutions also risks diminishing US leadership in those bodies and in international development cooperation generally.

Our recommendations to the Subcommittee on four multilateral aid items in the Administration's FY 83 request are as follows.

(1) We are distressed by the sizeable decreases proposed in US voluntary contributions to the development programs of international organizations, especially UNICEF (a $15.5 million cut); the World Food Program (a $1.5 million cut); and the UN Development Program (a $20 million cut). We urge restoration of those programs to at least FY 82 levels.

(2) Regarding IFAD, you will recall that in last year's conference on S 1802, conferees from this Committee insisted on providing no FY 82 contribution to IFAD, despite an Administration request and provision in the House-passed measure of about $40 million. Since December, the OPEC countries have come forward with an additional pledge, bringing their total replenishment contribution to $450 million. Developed countries have confirmed their pledge of $620 million. In addition to firming up the burden-sharing arrangements, IFAD has also taken steps to address your other major concern by freezing professional staff levels for 1982 at 1981 levels. IFAD urgently needs the $65.4 million requested by the Administration for FY 83 and a payment of about $25 million still in FY 82 for its effective work to proceed. We urge support for the Administration's request of $65.4 million for IFAD for FY 83. We also urge you to seek ways of making some funding available in FY 82.

(3) We favor appropriation of the full $945 million requested for IDA. While some may feel hard-pressed to support an increase from $700 million in FY 82 to $945 million in FY 83, the Administration's request needs to be seen in the context of the US commitment to provide $3.024 billion to IDA in Fiscal Years 81-83. With only $520 million appropriated in FY 81, appropriating even the full $945 million in FY 83 will mean the stretching out of our commitment into FY 84 and 85. We believe that those who wish to see the US share reduced--and we are not among them--should direct their attention to the negotiations of IDA VII rather than seeking to keep the US from fulfilling its international promises for IDA VI. We ourselves believe that IDA's focus on the poorest countries, its heavy emphasis on agriculture and rural development, and its special place of importance in international development cooperation as viewed by developing and developed countries alike warrant continued and extensive support from the US.

(4) Finally, we urge particular review of the Administration's intention to make a "drastic" reduction in the US contribution to the sixth replenishment of the Inter-American Development Bank and its Fund for Special Operations (FSO). The FSO "soft-lending" activities are focused on the region's poorest nations and people and are fully in keeping with the stated objectives of the Administration's Caribbean Basin Initiative. To ignore the complementary role which such institutions can play in the economic development of the Caribbean Basin is to overlook an important source of development aid for the region.

## Conclusions

To sum up, our basic recommendation this year, as last, is that the Committee achieve a better balance between security assistance and development assistance by making reductions on the security side and applying some of the savings to increase funds on the development assistance side.

We urge the Subcommittee, as a minimum, to reject the requested increase of nearly $1 billion for foreign military sales credits for FY 83 (as well as the additional $900 million requested in loan guarantees) and, on the other side of the ledger:

- to increase the bilateral health account by at least $19 million to the FY 82 level;

- to raise US contributions to UNICEF, the World Food Program and UNDP also to last year's level.

We also recommend increased funding for IFAD and the appropriation of the full $945 million for IDA.

With regard to FY 82 supplementals, we urge you to reject the increases in military assistance requested by the Administration. We also urge you to consider carefully our proposed changes in the CBI and those approved by the Senate Foreign Relations Committee.

Only with changes along those lines would a new appropriations bill, in our view, merit the support of those concerned about justice for the world's needy people. If human needs programs are provided for by continuing resolution rather than by regular appropriation, we urge that these considerations be honored in the CR and disproportionate additions in security assistance be rejected.

In short, we do not believe that more US security assistance will provide the US with more security. On the contrary, accelerating the militarization and politicization of the Third World increases the insecurity of us all.

We do not believe that our nation should increase its role as the world's leading arms merchant. On the contrary, we ought to provide international leadership in multilateral problem-solving, both on issues of militarism and disarmament and on those of economic and social development.

We do not believe that the US should pull back from its support for human needs assistance. Millions of people in the Third World live in poverty beyond our imagining. Their daily lives are a continuous struggle between barest survival and death. Their greatest need is not for weapons to protect themselves from external threats, real or imagined, but for the economic development tools which will enable them to pull themselves out of degrading poverty and live their lives in dignity and hope.

## ECONOMIC SUPPORT FUND

Senator KASTEN. Thank you for your testimony.

I want you to further elaborate on the statement that you made regarding the economic support fund. In the beginning of your statement you lumped it all together and essentially said that this was nondevelopment assistance.

Then you kind of backed away from that on the next page or so after you said, "Well, I guess you could say some of it is, but it a large proportion of it is going to two particular countries.

This committee has traditionally looked upon the Economic Support Fund essentially as development assistance. It is bilateral, and it goes to people that are helping us. In that way it is different from the multinational or multilateral groups which you seemed to refer to.

But I think I would like for you to elaborate on why you view the Economic Support Fund as nondevelopment assistance.

Ms. CAPPS. Let me try to explain that. First of all, when we refer to security assistance, military and Economic Support Fund assistance—together, we are generically following the categorization in OMB which includes both under international security assistance.

We call ESF security assistance because, as you know, a primary motivation for Economic Support Fund aid is a country's political and strategic connection to the United States. In other words, it has a motivation which is not as strong a motivation for development aid. So, that is part of the distinction.

Senator KASTEN. The distinction you are trying to draw then is that if it is development aid to our political friends or allies it no longer is development aid. I do not think that is a distinction that we would accept.

Ms. CAPPS. No, not at all. That is not the distinction that we would accept, either. Perhaps I can clarify that by describing in greater detail our position on Economic Support Fund aid itself and the reason why we do differ from you in that we make the distinction between it and development aid.

First of all, its concentration. If you look at the countries, the number of countries, and the distribution of allocations of development assistance and Economic Support Fund aid, you do find a concentration of Economic Support Fund aid in a few countries—in countries in the Middle East, in the Philippines, in Pakistan, now in El Salvador. So that the pattern of allocations is a different one.

Beyond that, if you look at the kinds of aid, the kinds of assistance given under development asssistance and Economic Support Fund aid, about three-quarters of Economic Support Fund aid is either in the form of balance of payments—in other words budget support or commodity imports, and about one-quarter in the form of project aid.

Now, that quarter is used essentially for the same kinds of purposes as development aid. In other words, the project aid is very similar to development aid, it is used for similar purposes.

But the budget support and the commodity import aid does not have the same kind of requirements attached to it as development aid has.

Senator KASTEN. I think it is important to recognize that you would then say that the $200 million or so that we are spending in Africa under this category somehow has a different classification to it, that clearly is development assistance, although it is ESF support as well. Is that what you are suggesting to us?

I do not agree with your distinction here. But why not just respond to that very briefly?

Ms. CAPPS. All right. Basically, I think that what we are saying is that you do not have quite the same development potential out of Economic Support Fund aid as out of development aid.

Now, I think you could pick out certain countries and certain activities in certain countries where Economic Support Fund aid and development aid might well be indistinguishable. In fact, we quite recently had a discussion with Mr. McPherson of AID about the developmental use of Economic Support Fund aid in which he said to us that AID was very much interested in getting as much development potential out of it as possible.

He mentioned, for instance, support for cottage industries in Peru that was coming from Economic Support Fund aid. So, there are indeed instances when Economic Support Fund aid does have substantial development potential.

Nonetheless, our basic position is that if you look overall at the two categories of aid, the various factors I have tried to outline for you, Economic Support Fund aid does not have overall the same kind of development impact as development aid.

Another problem with Economic Support Fund aid, related to its high concentration—and here I think the Egyptian program is a good example—is that it tends to be self-perpetuating so long as the political and strategic situation remains the same.

The pipeline, as you well know, of United States aid to Egypt now is about $2.5 billion, I think. In other words, $2.5 billion of aid is looking for a place to nest because it is self-perpetuating.

This can create management problems for AID in programing and absorptive capacity problems on the part of the recipient. We also feel that it weakens U.S. leverage. The Egyptian Government knows that this aid is going to be forthcoming whether it changes policies in the direction the U.S. would encourage it to or not.

I am referring, of course, to the subsidies issue. Therefore that aid is, we feel, a disincentive to take certain policy actions that the United States would like to see Egypt take. So, that is another problem, the self-perpetuating nature of ESF.

Senator KASTEN. Does the interreligious task force on U.S. food policy get involved in the day-to-day management or in any evaluations of the day-to-day management of these programs, or are you principally involved in trying to influence decisions that we make here in Washington in terms of the mix, and just get involved in lobbying for different points of view?

I am asking this question because this weekend there was an interesting article in the New York Times magazine section on the failure of some of the aid programs—possibly you read it. This is the same kind of a thing that we have seen over and over again, and you just referred to it happening with Egypt. It referred primarily to Bangladesh where, in fact, we may by our food policies be perpetuating certain kinds of problems, and in addition there appears to be waste, fraud, corruption, and inefficiency.

Have you been, or do you get involved? Do you have task forces getting involved in the day-to-day mechanisms of these kinds of programs, particularly the agricultural programs? Do you have reports and other kinds of work on a day-to-day basis?

Ms. CAPPS. The task force itself is Washington based—Washington-based representatives of various religious denominations and agencies.

Now, some of the agencies that work with the task force do themselves have programs overseas and do have representatives overseas. So, we do get a certain amount of feedback through participating agencies and a certain number of evaluations from people who come to Washington and are in contact with the task force.

We also try to keep up with the GAO and the AID evaluations of programs.

Senator KASTEN. Now, the Catholic group is not part of this though, is it?

Ms. CAPPS. Some Catholic Groups—Jesuit Social Ministries, the Mary Knolls, Network, the Center of Concern are members. Staff from the U.S. Catholic Conference participate. Are you thinking of Catholic Relief Services?

Senator KASTEN. Yes.

Ms. CAPPS. It is not a member, though many of us do have direct person-to-person contacts with Catholic Relief Services.

Senator KASTEN. Thank you for your testimony before the committee. We appreciate your participation, and we also appreciate your patience, and the patience of the two or three people that are to follow you. This is a long afternoon.

Ms. **Capps**. Thank you.

Senator **Kasten**. Next is Dr. Richard Smith.

As Dr. Smith is coming forward, I would like to welcome all of you from Warsaw, Wisc., from the First Presbyterian Church. If Dr. Smith will give me a chance, I just want to let you know a little bit about what is going on here.

This is a day of public witnesses for the Foreign Operations Subcommittee of the Appropriations Committee. I am the chairman of that subcommittee, and today we have people testifying on a number of different issues of public concern.

These are people from all over the country. Actually, Dr. Smith is coming all the way from Hawii to testify before us today, people from all around the country who are interested in different issues having to do with security assistance and economic assistance.

So, I am sorry I did not have a chance to sit down and meet with you. This hearing is taking a little bit longer because we have more public participation, more public interest than we thought we would have.

But thank you very much for stopping, and I hope you will be interested in what Dr. Smith and possibly some of the other witnesses might have to say, if you have an opportunity to stay longer.

Dr. Smith, thank you for joining us. You are representing the John A. Burns School of Medicine, the University of Hawaii. Dr. Smith?

## University of Hawaii

### STATEMENT OF RICHARD A. SMITH, M.D., JOHN A. BURNS SCHOOL OF MEDICINE, UNIVERSITY OF HAWAII

Dr. **Smith**. Thank you, Mr. Chairman. The opportunity to appear before you today is appreciated.

By way of background, I am the director of a health and development group which has been interested in the development of cost-containing systems of delivering health services for the past 15 years. We started out at the University of Washington, training and retraining military corpsmen and nurses to help rural and urban physicians in the Northwest who were decidedly overworked.

This program has now spread to 36 of the 50 American States with the support of organized medicine.

For the past 10 years, I have been at the University of Hawaii taking the lessons that we have learned, developing newer technologies to take these experiences and put them to work to affect the lives and the development of larger geographic areas and many, many more people.

I am here today because of concern regarding the possible reduction in interest and resources in foreign assistance in the health field. I am here to support the directions and actions being taken by the Agency for International Development, actions which take advantage of capabilities and technologies which have been developed in primary health care; actions which, I think, promote the transfer of technology and American knowhow into the developing world.

It is apparent that socioeconomic self-development is promoted in a meaningful way not by the transfer of capital resources but by our country sharing and transfering technology and competence, among other things—competence which will reduce the duplication of support mechanisms and helps these countries to build for themselves permanent and self-sustaining capabilities and institutions.

I think there is a need to stress the importance of socioeconomic development in the nonindustrialized world as it relates to the national interest of our own country, including the expansion of American commercial markets.

Health is one of the critical contributors to the socioeconomic development process as it relates to productivity and therefore socioeconomic viability.

In my written testimony that I have submitted to you, I describe in some detail reports and studies that have been performed by the World Bank and other groups, including our own work at the University of Hawaii with our Medics Group; work that we have done in Lesotho in southern Africa, in Guyana in South America, and in Pakistan, on the south Asian continent, which speak to this issue.

We see emphasized over and over again that a healthy and well-nourished labor force is more physically and mentally productive than one that is sick, with low energy levels.

We have seen also and have been told time and time again that populations in areas that have potential for national resource and economic development are coming closer to the realization of development because of health efforts in certain countries that we have seen, have worked in, and that others have been working in.

Recently, a movement has come into being to integrate health efforts in development and to reduce the redundancies that have proved so costly in the past. This phenomenon, called the primary health care movement, is aimed at demythifying medicine and using larger numbers of less sophisticated, less expensive paramedical workers to provide services that only doctors have been allowed to deliver in the past—not only in the developed world but as well in the developing world.

This movement, primary health care, is also aimed at improving management capabilities, the use of technologies other than these that I am mentioning, appropriate and adaptable for settings in the developing world, are also part of this movement.

The Agency for International Development has moved into primary health care with what I consider to be foresight and with cost-conscious deliberateness. We think that this is the way to develop the structures and the manpower to apply technology and the fruits of biomedical research that is appropriate for development.

It is for this reason that I am here today because I think this effort needs your continued support.

Our medics group at the University of Hawaii has been participating with AID in the development of technology to improve the way that health services are delivered, to improve the capability of developing countries; to increase and expand their delivery of essential health services.

Now with this, at the university, we have developed not only the technology but expertise and some competencies, especially in this area that I mentioned of manpower development and especially in management support systems. These were described last year before this committee by our dean, Dean Terrence Rogers, in testimony before this committee.

This technology is being promulgated by the Agency for International Development at this time, as well as other technologies, for use overseas. We now see finally examples in this field of American know-how and seed investments by this government being readied for a large-scale multiplier effect that portends significant impact on socioeconomic development in the Third World.

Like many others, we shared the hopes that American business would be interested in this activity, in supporting it for the sake of expanding their overseas markets. We contacted about 70 of the top 100 multinationals in this country to enlist their help in this effort. However, we detected no serious interest and received only encouraging words and good wishes.

I am sorry to say that we also experienced the same kind of response from some selected foundations.

So, it was of some interest, then, that I heard that Japan was establishing an international center for primary health care. They apparently have enough interest in the long-range payoff of investments in this field that they have made this sector a special target.

At the University of Hawaii and elsewhere in this country we feel that we are about 4 to 5 years ahead of Japan in this field in terms of competence and primary health care systems training, as well as in management know-how. We feel that we are ahead for the time being in technology and its adaptation and transfer. And hopefully our practical experiences are going to be keeping us in front.

It is imperative that the Federal Government maintain its role in the forefront of this and some of the other developmental efforts taking place overseas. I say this because I do not feel—or at least it is not apparent to me—that others in this country are going to be picking up the baton in any meaningful way in the near future.

Our own national interest, including America's commercial interest, I think, dictate that primary health care should be a part of our continued long-range planning and activities in foreign assistance.

That is all I have to say in terms of summarizing my testimony. I thank you very much for the opportunity to share these thoughts with you and the subcommittee.

[The prepared statement of Richard A. Smith, M.D., follows:]

## PREPARED STATEMENT OF RICHARD A. SMITH, M.D., M.P.H.

## UNIVERSITY OF HAWAII

Many of us in the field of international development, especially in the area of health, have been concerned about possible reductions in interest and resources in our foreign assistance program during this time of serious economic constraints. I am here to support directions and actions being taken by our Agency for International Development that take advantage of new concepts and technology that is increasingly supportive of socioeconomic development in the Third World. These directions reduce the potential of dependency on American resources and simultaneously help developing countries build permanently institutionalized and self-sustaining capabilities to promote their own socioeconomic development. The directions and actions are very appropriate at this time.

I am here to promote a high level of awareness of the importance of Primary Health Care in socioeconomic development in the non-industrialized world as it relates to the national interest of the United States. In addition, the necessity of Third World development to the expansion of America's commercial markets needs to be underlined. In this regard I want to point out the importance of technical assistance in health as one of the critical contributors to the socioeconomic development process; I want to discuss the health of a population as it relates to productivity and, thus, socioeconomic viability.

Productivity is often related to skills and other individual resources including available personal energy. The demands placed upon the individual citizen of a developing country to become an entrepreneur or otherwise move into a market economy places him/her in situations that call for more sustained individual energy outputs. Health is a major determinant of the personal energy that one can bring to his workplace. Obtaining an education, longer work days, highly taxing and stressful confrontations with machines and technology are requirements for increasing productivity in a rapidly evolving Third World. In the past there has not been large-scale concern for meeting the increasing human energy output requirements of development. People had grown accustomed to walking around and working with low hemoglobin and low blood counts, short life spans, chronic diseases, recurring acute illnesses and consequent low energy levels. These conditions allowed one to barely subsist and not much more; in some instances, even subsistence was not possible with these conditions accepted by some as "normal." However, in today's context of development where productivity is directly and indirectly related to these formerly acceptable "norms," such conditions are no longer considered tolerable within the socioeconomic development complex.

> Human development links the creation of productive work opportunities for the poor with the provision of goods and services to meet their essentials needs. The elements of human development--health, education, nutrition, etc.--are closely interrelated. Improvements in one area can facilitate improvements in others and reinforce all aspects of development. (Source: World Development Report 1981, Washington, D.C., The World Bank, August 1981, p. 97)
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> A healthy and well-fed labor force is more physically and mentally energetic than one that is sick and hungry, and therefore gets more work done and is more innovative. This is confirmed by a number of experiments and project-level studies. (Source: World Development Report 1980, Washington, D.C., The World Bank, 1980, p. 39)

A World Bank study among Indonesian workers reported that 85% of the studied population had hookworm and 45% suffered from iron-deficiency anemia. Sixty days of treatment with iron supplement increased productivity by 19% at a cost of US$0.13 per person in this study; the calculated benefit/cost ratio was 280:1. (Source: Basta, S.S., and Churchill, A., "Iron Deficiency Anemia and the Productivity of Adult Males in Indonesia," Washington, D.C.: International Bank for Reconstruction and Development Staff Working Paper No. 175, 1974)

In a study of tuberculosis control in Korea, it was estimated that US$150 would accrue to the nation for every US$1 spent in an optimal control program. (Source: Feldstein, M.S.; Piot, M.A.; and Sundaresan, T. Resource Allocation Model for Public Health Planning: A Case Study of Tuberculosis Control, Geneva: World Health Organization, 1973)

From the experiences of the University of Hawaii in its overseas technical assistance efforts in health, we see other evidence of the impact on economic development by such health oriented activities. In Guyana, the retraining of existing auxiliary health workers and their deployment to isolated rural areas, including mining, timber and agricultural production areas, has greatly reduced the amount of time lost to work activities by eliminating the need for workers to spend several days travelling to and from the distantly located capital city for personal health services. Also, in order to attract workers and their families to under-populated and undeveloped interior regions of the country (areas that have large potential for national resource and economic development), families are insisting upon availability of health services. Consequently, the development of health services has had to become an essential part of the government's development strategy for that country. (Source: Guyana, AID Project No. 504-0066, Rural Health Systems)

In Lesotho, the expansion in number of rural health centers and adequate staffing has decreased average access time for personal health services from fourteen hours (1976) to eight hours (1981), significantly reducing the time lost to work. (Source: Lesotho, AID Project No. 690-0058, Rural Health Development Project. Also, facility expansion partly funded by British Commonwealth Fund)

The development of rural basic health services in Pakistan has, as one of its objectives, the provision of amenities in rural areas for the purpose of combatting urban migration which pulls workers at their most productive age from agricultural and natural resource production. (Source: Pakistan, AID Project No. 391-4150, Basic Health Services)

There are specific health problems that need to be resolved directly. Others are amenable to more indirect means. Even in light of the shortage of full-fledged health professionals, there is need to develop an integration of these direct and indirect means, an integration of curative and preventive health services. In addition to the shortage of doctors, there is the need to provide basic and essential health services to the majority of medically disadvantaged populations living in developing nations. These needs, articulated in individual countries as well as in the Assembly of the World Health Organization, has given rise to the fast growing Primary Health Care movement. This movement is aimed at demystifying medicine and increasing the use of paramedical manpower. It is also aimed at improving management competencies and utilization of appropriate but perhaps less sophisticated and less expensive health technologies. The Primary Health Care Movement is a recent development and a most important phenomenon. It coincides with competencies and technology developed by the Agency for International Development collaborating with and investing in American universities and other institutions. This investment to reduce outside help and improve self-sufficiency in health and other sectors in developing countries occurred with the emergence of Primary Health Care as a vehicle to make technical assistance in health more cost-effective. We cannot afford to lose this investment or this opportunity.

Under contract with AID the University of Hawaii has developed technology appropriate to increase the capability of developing nations to improve and expand their delivery of essential health services. Methods are now available to broadly apply new technology, to deliver the fruits of biomedical research to large segments of disadvantaged populations. The development of such technology and broad competencies in international health (especially in manpower development and management support systems development) were described in testimony last year before this Subcommittee by Terence Rogers, Dean of the University of Hawaii School of Medicine. At that time Dr. Rogers also described the field trials of that technology in Lesotho, Guyana and Pakistan after initial development work in Micronesia and Thailand. This and other Primary Health Care technology is being promulgated by AID at this time for use overseas. We thus have examples of American know-how and seed investments being positioned for a large-scale multiplier effect that portends significant impact on socioeconomic development.

The MEDEX group at the University of Hawaii had hoped that the private sector would get involved in this kind of activity for the sake of improving socioeconomic development and expanding markets for American goods and services overseas. To this end, we contacted 70 of the top 100 U.S.-based multinational corporations over the past five months. These were corporations that we felt should have interest in improving their overseas markets and who might understand the importance of socioeconomic development in the industrializing nations as it relates to the future operations of multinationals. Of the 70 corporations contacted, 67 had no interest whatsoever in helping with this kind of assistance. Follow-up conversations were requested by three of the corporations, conversations which ultimately produced only friendly encouragement and good wishes for success. A similar dismal response resulted from contacting selected foundations thought to have an interest in long-term socioeconomic development in the Third World. Narrowing of objectives, introspection approaching isolationism, and a tightening of money belts yielded no serious interest from the foundation community. We found few people wanting to invest significantly in the future, even if it is the future of this country.

The private sector in our country appears to presently lack far-sighted concern for this type of investment in the expansion of overseas markets. This is not the case with Japan's interest in Primary Health Care. They have enough interest in the long-range payoff of investments in Primary Health Care that they have created a multimillion dollar international center for Primary Health Care. I can assure you, however, that at the University of Hawaii and elsewhere in this country, we are four to five years ahead of Japan in terms of competence in Primary Health Care systems training and management know-how, ahead for the time being in technology adaptation and transfer; and we hope to maintain our lead in practical experience in this field.

The Federal Government must maintain its role in the forefront of this and other types of development efforts overseas. Not only are future commercial interests at stake, there appear to be other reasons closely tied to national interests that must be taken into consideration. I hope you will keep all of these reasons in front of you as you consider the U.S. Government's continuing role in development in general, and Primary Health Care specifically.

Senator **Kasten**. Dr. Smith, we thank you.

I think you are aware of the fact that our subcommitee has taken the lead in providing dollars for this health account. In fact, last year we provided more money for this account than the administration had requested. That would put it in a very unique category among accounts in this area because we are under very, very tight fiscal scrutiny.

I would also like for you to know that Senator Inouye has been of tremendous help not only to me personally as we have worked together on this committee, but also has shown great interest in this health account. It is in large part because of his hard work and tremendous reservoir of knowledge that we have been able to be successful as we have.

I know that Senator Inouye had wanted to be here, but unfortunately he was unable to attend this hearing. But he is working very hard in your behalf, as I am sure you know.

Dr. **Smith**. I wanted you to know that there are some of us out here that are supporting you.

Senator **Kasten**. Thank you very much for appearing today.

Mr. Eugene Rossides, legal counsel to the American Hellenic Institution Public Affairs Committee, speaking on issues having to do with Greece and Cyprus.

Nice to see you again.

## American Hellenic Institution

### STATEMENT OF EUGENE ROSSIDES, LEGAL COUNSEL, AMERICAN HELLENIC INSTITUTION PUBLIC AFFAIRS COMMITTEE, INC.

### ACCOMPANIED BY GEORGIA DELYANNIS, EXECUTIVE DIRECTOR, PUBLIC AFFAIRS COMMITTEE

### OPPOSITION TO ASSISTANCE TO TURKEY

Mr. **Rossides**. And Turkey, Mr. Chairman.

Senator **Kasten**. Greece, Cyprus, and Turkey.

Mr. **Rossides**. Mr. Chairman, we appreciate very much being here today, and I want to introduce Ms. Georgia Delyannis, the executive director of our Public Affairs Committee.

We are here today to present views in opposition to the administration's proposal to increase military and economic assistance to Turkey for fiscal 1983 from $704.2 to $820 million, an increase of $115.9 million, a few months after the 2-year International Security and Development Cooperation Act of 1981 was signed into law on December 29, 1981.

The views in this statement apply also to the administration's recent proposal for an $82 million supplemental increase in military aid to Turkey for fiscal 1982.

In view of the present budget and economic crisis, and in support of the rule of law, this committee should be considering cuts, not increases in the foreign aid appropriation for Turkey for fiscal 1983.

In the interests of the United States at home and abroad, including national security considerations, we urge you:

One, to vote against the $115 million increase for the Turkish junta. And I point out that the Senate Foreign Relations Committee on May 25 voted down the $65 million military increase and reduced the $50 million economic grant.

Two, to vote to make aid to Turkey conditioned on the removal of all Turkish troops and colonists from Cyprus, and the return of the refugees to their homes and properties.

Three, to vote to stop all grant aid and concessional soft-term loans to Turkey.

Four, to vote to reduce the exorbitant $704.2 million in military and economic aid to Turkey to $100 to $150 million, subject to the conditions mentioned above.

The reasons, Mr. Chairman, and arguments in support of each of the proposed amendments I am summarizing as follows—they are fully set forth in the written statement:

One, the present budget and economic crisis. The huge budget deficit, the 9½-percent unemployment—a post-World War II high; the need of our own domestic and defense needs really call for and indeed mandate cuts in the overall foreign aid program.

(a) The cost to the American taxpayer of aid to Turkey we estimated over $5 billion since 1974, and currently at an annual rate of over $1 billion when you take into account the annual military and economic aid figures, plus the interest, the net interest and carrying charges on the $2.5 billion debt presently owed to us by Turkey because of concessional soft-term loans, and the interest and carrying charges on the $5.6 billion in aid since World War II, which is part of our national debt.

(b) Mr. Chairman, Turkey today receives higher amounts of aid, since its aggression, than before its aggression. Turkey is a prime advertisement that aggression pays.

(c) Military and economic aid to Turkey is fungible and has been used by Turkey for whatever purposes it wants. The Turkish budget includes funds to subsidize its occupation of 40 percent of Cyprus; funds for its army of the Aegean, including landing craft, and funds for internal police work by members of its armed forces, all non-NATO purposes.

The second reason and argument against any increase in aid, Mr. Chairman, is the rule of law in international affairs. The Falklands crisis has projected the rule of law onto center stage once again. The double standard for Turkey compared to our policy toward Soviet aggression in Afghanistan; our policy toward repression and martial law in Poland, is brought into sharp relief and magnified by the Falklands crisis.

I urge you to see the illuminating article, attachment 1, by Alexander Cockburn that appeared in the Wall Street Journal on May 13, Mr. Chairman.

Two, Turkey is an unreliable ally. Turkey's de facto military cooperation with the U.S.S.R. and Turkey's economic relationships with the U.S.S.R.

During the afternoon, Mr. Chairman, you have referred to the Soviet Union's assistance to the PLO. Well, unfortunately not enough is known about the Soviet assistance and collaboration with Turkey economically and militarily, Mr. Chairman.

Turkey's rapprochement with the Soviet Union has been since 1960, and it has developed into a close working relationship between them militarily and economically. See attachment 2, Luttwak, "The Political Uses of Sea Power."

We submit that Turkey's rapprochement as a practical matter neutralizes Turkey as a reliable ally of the West. Under no circumstances would Turkey invade the Soviet Union if the Soviet Union ever invaded and attacked the central front of Europe.

Economic relations between Turkey and the Soviet Union have increased substantially over the last two decades. The U.S.S.R. is one of Turkey's leading trading partners; is a major supplier of Turkey's energy needs, and Turkey is the largest recipient of Soviet foreign aid in the world.

Turkey will not jeopardize its economic relations with the Soviet Union to satisfy the United States or NATO. Only recently Turkey ignored the U.S. calls to curb economic ties with Moscow by signing a major new trade agreement with the Soviet Union, as reported in the New York Times on January 20, 1982.

The Soviet-Turkish military cooperation.

One, in the October 1973 Mideast war, before Turkey's aggression in Cyprus in July and August of 1974, Turkey authorized Soviet military overflights and convoys to Iraq and Syria while refusing the United States overflight rights.

Two, the rise of the Soviet fleet in the Mediterranean has been greatly facilitated by Turkey. The Montreux Convention provides for the passage of certain Soviet naval ships. Since World War II and particularly in the last 20 years, Turkey has construed that convention in the Soviet's favor. NATO officials have protested but to no avail.

Three, Turkey has actively facilitated the air and sea shipment of arms by the Soviet Union to Africa, as charged by senior NATO officials.

Four, "Clear it with Moscow." You may remember, Mr. Chairman, only a few short years ago Turkey refused the U.S. request to allow U.S. intelligence flights for SALT II verification over Turkish airspace, stating it would have to be cleared with Moscow. This position was voiced by Gen. Kenan Evren, now the head of the Turkish military junta, as well as other Turkish officials.

The above facts are unpleasant. Unfortunately, they are not as well known as they should be. They have been ignored for too long by State, Defense, and National Security Council officials to the detriment of U.S. national security interests.

Five, Turkish intransigence. The record of Turkish intransigence speaks for itself. The Congress had the partial lifting of the embargo in October 1975, the full lifting in August 1978 on the expectation that there would be some progress. Turkey has actually hardened its positions at each of those occasions.

Unconditional aid to Turkey has been self-defeating. If you, Mr. Chairman, were really the Turkish military junta and you received more aid after aggression than before, what would you do?

Six, Turkey is of minimal strategic importance. The three listening posts are primarily duplicative and of minimal value. The Soviets have achieved their strategic access. The Dardanelles can be mined by the United States and NATO in case of war. Turkey's alleged value regarding U.S. interests in the Persian Gulf is a myth, you cannot reach the Persian Gulf by land through Turkey.

Modern warfare has made Turkey's geographic position of minimal value. The Turkish Army will only defend Turkey. Turkey has no strategic raw materials or other economic resources of value to the United States or Western Europe.

The sixth reason to not have any increases in aid to Turkey, Mr. Chairman, is Turkey's abysmal human rights record, which is set forth and documented by the Council of Europe, the Commission on Human Rights, Amnesty International, and only recently, June 3, 1982, the New York Times in a front-page story reported Turkey pressuring Israel to cancel an international conference on genocide.

We need to review and reevaluate United States-Turkish relations. We hope that Judge William Clark, the new Natonal Security Adviser to the President, will take a fresh and independent look at United States-Turkish relations and the President's campaign pledge of September 26, 1980. That pledge is set forth in attachment 5 to the written statement.

But no matter what the executive branch does, Congress has its own constitutional responsibility in the formulation of U.S. foreign policy and should on its own direct a review and reevaluation of United States-Turkey relations.

Our concern is with the Turkish leadership, Mr. Chairman, not the Turkish people. It is the Turkish leaders who have violated international law and bilateral agreements, and committed aggression.

Mr. Chairman, in conclusion, foreign aid has often been used as a crutch to avoid reality and hard decisions. Foreign aid to Turkey is a prime example. In view of our present economic crisis we can no longer support this folly.

We thank you, Mr. Chairman, very much for the opportunity to be here.

[The prepared statement of Eugene Rossides follows:]

# PREPARED STATEMENT OF EUGENE T. ROSSIDES

SPECIAL COUNSEL

AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, INC.

Mr. Chairman and members of the Subcommittee, this statement is submitted on behalf of the American Hellenic Institute Public Affairs Committee, Inc., and presents views in opposition to the Administration's proposal to increase military and economic assistance to Turkey for fiscal 1983 from $704.2 million to $820.1 million, an increase of $115.9 million a few months after the two-year International Security and Development Cooperation Act of 1981 was signed into law on December 29, 1981.

The views in this statement apply also to the Administration's recent proposal for an $82 million increase in military aid to Turkey for fiscal 1982.

In view of the present budget and economic crisis, and in support of the rule of law, this Subcommittee should be considering cuts, not increases, in the foreign aid appropriation for Turkey for fiscal 1983.

Executive Branch policy towards Turkey has not worked. The State Department, Defense Department and National Security Council hierarchy have been wrong for years on this matter and in a number of instances have misled the Congress and the American public about the facts and issues involved.

Executive Branch policy has resulted in a weakened U.S. security situation in the Eastern Mediterranean and has cost the American taxpayer billions of dollars in wasted aid to Turkey. This policy should be changed now!

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In the interests of the United States at home and abroad, including national security considerations, we urge you:

1. to vote against the $115.9 million increase for the Turkish junta ($65 million military and $50 million economic grant) in the foreign aid proposal for fiscal 1983. (The Senate Foreign Relations Committee, on May 25, voted down the $65 million military increase and reduced the $50 million economic grant).

2. to vote to make aid to Turkey conditioned on the removal of all Turkish troops and colonists from Cyprus and the return of the refugees to their homes and properties. These and the other policy pronouncements set forth in the International Security Assistance Act of 1978, should be made specific conditions precedent to aid to Turkey.

    a. Without such conditions precedent all aid to Turkey goes to support Turkey's occupation of 40% of Cyprus and for other non-NATO purposes because of the fungible nature of military and economic aid.

3. to vote to stop all grant aid and concessional soft-term loans to Turkey. The $704 million aid package passed in December 1981, contains $200 million in economic support fund grants and the current $820 million aid package contains $250 million such grants.

    a. With staggering federal deficits and with United States unemployment at 9.5% - a post-World War II high, it is unreasonable to give grant aid and concessional soft-term loans to Turkey.

4. to vote to reduce the exorbitant $704.2 million in military and economic aid to Turkey to $100 to $150 million, subject to the conditions precedent mentioned above. Aid to Greece should be reduced to an equal amount. (You may also want to consider not authorizing any military or economic aid to Turkey and Greece until the major disputes affecting their relations - Cyprus, the Aegean and residual NATO matters - are settled.)

The reasons and arguments in support of each of the proposed amendments are as follows:

(1) THE PRESENT BUDGET AND ECONOMIC CRISIS

The huge federal deficit for fiscal 1982, the revised projected staggering federal budget deficit for fiscal 1983 of over $100 billion, 9.8% unemployment - a post-World War II high, our domestic and defense needs, the urgent and vital need to cut federal spending, and the cuts presently being considered by the Congress in practically all domestic programs and in the defense budget, call for, indeed, mandate cuts in the foreign aid program.

The central question is whether it is better for U.S. domestic, foreign and national security interests to increase military and economic aid to Turkey in the amount of $115.9 million over the recently authorized $704.2 million or to use those dollars for our own defense and domestic needs, including the reduction of our huge federal deficit and the needs of each of our 50 states.

We submit that the Administration's proposal does actual harm to U.S. national security interests in view of our economic crisis as long as the Turkish military junta continues:

*its aggression in Cyprus with 27,000 occupation troops, 40,000 colonists and economic subsidization of the Turkish Cypriots, all at an estimated cost of $300 to $500 million annually (which is subsidized by the American taxpayer); and

*its threats against Greece in the Aegean; and its non-NATO Army of the Aegean aimed at Greece at an estimated cost of $250 million to $400 million annually (subsidized in substantial part by the American taxpayer); and

*its opposition to Greece's military operational control of the Aegean for NATO, which Greece had prior to Turkey's aggression in Cyprus in 1974.

The harm to U.S. national security interests is at least five-fold:

*the precedent it has set for Soviet and other aggression;

*the double standard for Turkey compared to our policy towards Soviet aggression in Afghanistan, our policy towards repression and martial law in Poland and our policy regarding the Falkland Islands;

*the alienation of Greece;

*the jeopardizing of Western bases in Greece and Cyprus; and

*the continuation of a senseless arms race between Greece and Turkey which harms both nations.

The small amount of intelligence information we get via three listening posts in Turkey is not worth the damage the U.S. and NATO have suffered because of Turkish aggression in Cyprus and subsequent intransigence; nor is it worth the extraordinary costs involved for the U.S. taxpayer.

a) Cost to the American Taxpayer

We estimate the cost to the American taxpayer since 1974 to be over $5 billion (and currently over $1 billion annually) stemming from:

1) Annual military and economic aid from July 30, 1974 to date.

2) Interest and carrying charges on the $5.6 billion in military and economic grant aid to Turkey since World War II, all of which is part of our current national debt.

3) Net interest and carrying charges because of concessional soft-term loans on the $2.5 billion presently owed to the U.S. by Turkey. (See National Advisory Council Reports on International Finance.)

The Subcommittee should immediately stop all grant aid and concessional soft-term aid to Turkey.

We further submit that in any event the amount of aid to Turkey should be drastically reduced from the astronomical amount of $704.2 million. Maximum military and economic aid should be no more than $100 to $150 million, with specific conditions attached. Such a level would reduce substantially the irresponsible arms race between Greece and Turkey which has been fueled by the United States and West Germany. Aid to Greece should then also be reduced to an amount equal to the total of military and economic aid to Turkey.

The Turkish Army, as presently structured, is a severe drain on the Turkish economy. As one expert stated:

> "The Turkish Army is not a cure to Turkish democracy, but rather a major cause of the disease.... Since World War II, Turkey has tried to maintain a force structure it could not man or equip."

(See Justin Galen, "Turkey As a Self-Inflicted Wound," Armed Forces Journal International, June 1980, p.67; see also, Staff Report of the Committee on Foreign Relations, Turkey, Greece and NATO: The Strained Alliance March 1980, p.16.)

b) Turkey has eceived Higher Amounts of Aid Since its Aggression than Before its Aggression. Turkey is the Prime Advertisement that Aggression Pays.

As Senator Charles Percy stated on July 25, 1978:

> "During the period prior to the embargo, 1969-1974 the United States transferred to Turkey an average of $125 million in arms annually. Then, despite the embargo, in 1975 through 1977, the United States arms transfers to Turkey averaged $120 million annually, almost the same as before. For 1978 and 1979, the foreign military sales ceiling for Turkey is $175 million annually. Turkey is the third largest recipient in the world of such United States military credits.
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> "In addition, Turkey will receive $50 million in security supporting assistance which frees up other Turkish funds to purchase additional military equipment from European sources."

In fiscal 1980 aid to Turkey jumped to $450 million ($300 million orginally proposed plus a $150 million supplemental).

In fiscal 1981 aid to Turkey was $450 million.

In fiscal 1982, the final Carter Administration foreign aid proposal for Turkey, submitted in January 1981, was an incredible $700 million; an enormous $250 million increase. That increase was maneuvered by a lame duck staff member of the Carter National Security Council. This was stated in testimony before the Senate Foreign Relations Subcommittee on Europe on April 15, 1982, by that former staff member, Mr. Paul Henze. That action was an abuse of the transition process and detrimental to United States security interests.

### c) Military and Economic Aid to Turkey is Fungible and has been used by Turkey for Whatever Purposes it Wants.

Senator Percy's statement points up the fungible nature of military and economic aid. The Turkish budget includes funds to subsidize its occupation of 40% of Cyprus, funds for its Army of the Aegean and funds for internal police work by members of its armed forces, all non-NATO purposes.

## (2) THE RULE OF LAW IN INTERNATIONAL AFFAIRS

The Falklands crisis has projected the rule of law onto center stage once again. The double standard for Turkey compared to our policy towards Soviet aggression in Afghanistan and our policy towards repression and martial law in Poland is brought into sharp relief and magnified by the Falklands crisis. (See the illuminating article by Alexander Cockburn in The Wall Street Journal, May 13, 1982, Attachment No. 1, hereto.)

Turkey's aggression in Cyprus, in addition to violating international law, the UN Charter and the NATO Charter, violated U.S. laws and bilateral agreements under those laws which permit use of our military aid for defensive purposes only. The Executive Branch failed to uphold the law enacted by Congress which mandated the immediate halt of military aid to Turkey. Congress after several votes and presidential vetoes enacted the specific embargo against Turkey on December 17, 1974, effective February 5, 1975. Under intense pressure from the Administration the embargo was basically lifted in October 1975 and the remaining partial embargo lifted in August 1978.

Turkey's aggression against Cyprus in July and August, 1974, with its indiscriminate bombings of civilian targets, resulted in over 4,000 Greek Cypriots killed.

The rule of law continues to be violated by Turkey in its aggression and continuing occupation of 40% of Cyprus, which is subsidized by U.S. aid.

If Britain had met its responsibilities under the Treaty of Guarantee and if the U.S. had met its legal responsibilities as enunciated by the Congress of "ceasing immediately" all military aid to Turkey we would not be sitting here today.

### a) Myth and Reality Regarding Embargo

The rule of law arms embargo imposed on Turkey on February 5, 1975, did not "severely damage" the Turkish armed forces nor was Turkey "hit hard" by the embargo as Turkish officials have contended. The full military embargo lasted only seven months. It was basically lifted on October 2, 1975, on the expectation that Turkey would cooperate. Thereafter, Turkey was receiving arms aid from the U.S. at a higher rate than before the embargo. During and after the embargo period Turkey received arms from West Germany. The remaining partial embargo was lifted in August 1978, again on the expectation that Turkey would cooperate.

The Staff Report of the Senate Committee on Foreign Relations, Turkey, Greece and NATO: The Strained Alliance, March 1980, contradicts the Turkish officials and Administration officials by stating "that the arms embargo itself had only a minimal impact" on Turkish military equipment. (See pages 1 and 17 of the Staff Report.) The Administration witnesses have given misleading testimony in this regard as justification for the proposed $115.9 million increase, and for previous increases.

The Turkish defense budget is substantial, they could have allocated sufficient funds for all reasonable equipment needs; instead they have spent substantial funds on non-NATO purposes and then have asked the U.S. to subsidize various alleged equipment needs. This deceptive argument and request has been condoned, instead of being criticized, by the Pentagon and State Department officials.

The rule of law arms embargo and the outcry of Greek Americans against Turkish aggression and lawlessness did have the following important effects:

1) it upheld the principle of the rule of law in international affairs;

2) it focused U.S. and world attention and opinion on Turkey's aggression and violations of the rule of law in Cyprus;

3) it was instrumental in preventing further Turkish aggression in Cyprus;

4) it was instrumental in preventing Turkish aggression in the Aegean; and

5) it was instrumental in giving democratic Greece time to reorganize and strengthen its military forces in the crucial several months following Turkey's invasions of Cyprus in July and August of 1974.

### (3) TURKEY IS AN UNRELIABLE ALLY - TURKEY'S DE FACTO MILITARY COOPERATION WITH THE USSR AND TURKEY'S ECONOMIC RELATIONSHIP WITH THE USSR

Another reason to stop the proposed $115.9 million increase and to consider stopping all aid to Turkey is Turkey's rapprochement with the USSR since 1960, which has developed into a close working relationship between them, militarily and economically. (See Luttwak, *The Political Uses of Sea Power*, John Hopkins Press, 1974, pp. 60-61, Attachment No. 2, hereto.)

Turkey's rapprochement has, as a practical matter, neutralized Turkey as a reliable ally of the West. Turkey has become similar to Finland in its relationships with the USSR.

Anyone who thinks that Turkey would declare war against the USSR if the Soviets invaded West Germany is simply refusing to look at the facts, Turkish history and the NATO Charter. Turkey has been following its historic policy of playing one side against the other. The NATO Charter is not self-executing. It leaves it to each member nation to take "such action as it deems necessary" in case of "an armed attack against one or more of them." (The North Atlantic Treaty, Article 5.) And Article 11 states that the provisions of the Treaty shall be "carried out by the Parties in accordance with their respective constitutional processes."

The unreliability of Turkey as an ally does not rest simply on the proposition that Turkey would not enter a war against the USSR if the Soviets attacked West Germany because no vital Turkish interest is threatened. It rests also and substantially on the economic relationships between Turkey and the Soviet Union and on the fact that Turkey aided the Soviets militarily before as well as after Turkey's illegal aggression and occupation of 40% of Cyprus in July and August of 1974.

Let's look at the facts regarding Soviet-Turkish economic relationships and military cooperation.

a) Economic Relationships

Economic relations between Turkey and the Soviet Union have increased substantially over the past two decades and are of paramount importance to Turkey. The USSR is one of Turkey's leading trading partners. Further the USSR is a major supplier of Turkey's energy needs. In addition, Turkey is the recipient of the largest amount of Soviet foreign aid. Turkey will not jeopardize its economic relationships with the Soviet Union to satisfy the U.S. or NATO.

Only recently Turkey "ignored U.S. calls to curb economic ties wih Moscow" by signing a major new trade agreement with the Soviet Union. As The New York Times reported (Jan. 20, 1982):

> TURKEY AND SOVIET SIGN A MAJOR TRADE PACT
>
> ANKARA, Turkey, Jan. 19 (AP) - The Turkish Government signed a major trade agreement with the Soviet Union today, ignoring United States calls to curb economic ties with Moscow.
>
> Turkish and Soviet officials said the agreement called for $600 million in trade this year, a 30 percent increase over the 1980 figure. The agreement was viewed here as significant because it implied that Turkey, a member of the North Atlantic Treaty Organization, was unwilling to abide by a United States-sponsored effort to impose sanctions against Moscow because of the crackdown in Poland.
>
> Turkey's Foreign Minister, Ilter Turkmen, said his country "has a special interest in its economic ties with the Soviet Union." Under the agreement, the Soviet Union will supply Turkey with oil, amonia, fertilizer, timber and electricity. Turkey will export vegetables, meat textiles and leatherware.

b) Military Cooperation

Let us look at the public record of the de facto Turkish-Soviet military cooperation:

1) In the October 1973 Mid-East War, before Turkey's aggression in Cyprus in July and August of 1974, Turkey authorized Soviet military overflights and land convoys to Iraq and Syria while refusing the U.S. overflight rights! Turkey's rapprochement with the Soviet Union includes a Turkey-Soviet agreement giving the Soviets unimpeded overland transit to Syria and Iraq, military and civilian overflight access across Turkish airspace, and the easy movement of Soviet naval vessels and military supplies through the Dardanelles. (See attached Luttwak quote.)

2) The rise of the Soviet fleet in the Mediterranean has been greatly facilitated by Turkey. The Montreux Convention provides for passage of certain Soviet naval ships. Since World War II and particularly in the past 20 years, Turkey has construed the Convention in the Soviets' favor. For example, the passage of the Soviet cruiser Kiev through the Dardanelles in 1976 was an obvious violation of the Montreux Convention. NATO officials protested that passage at the time but to no avail. In early 1978 the Kiev (which was equipped at that time with YAK-36 verticle take-office strike fighters) served as the centerpiece of antisubmarine and antiship exercises targeted at the Sixth Fleet. (Business Week, Feb. 22, 1978.)

3) Turkey has actively facilitated the air and sea shipment of arms by the Soviet Union to Africa (Ethiopia, Libya, Cubans in Africa, etc.). Senior NATO officials made the following charge in 1978:

> A TURKISH ARMS 'FERRY' TO ETHIOPIA?
>
> NAPLES, Italy -- Senior NATO officials charge that the Soviet Union is pouring arms for Ethiopia through the sea and air space of NATO member Turkey.

> Adm. Harold E. Shear, commander in chief of allied forces in Southern Europe, said the Russians are hiding 'lots of material' in Soviet merchant ships that sail from the Black Sea through Turkey's Bosporus, Sea of Marmara and Dardanelles.
>
> (The Washington Star, Feb. 24, 1978)

4) Clear it with Moscow! In 1979, in one of its most insulting actions to the U.S., refused the U.S. request to allow U-2 intelligence flights (for Salt II verification) over Turkish airspace stating it would have to be cleared with Moscow. This position was voiced over a period of months by Turkish officials, the opposition part and the Chief of Staff, General Kenan Evren, now the head of the Turkish military junta. (See The Washington Post and The New York Times, April-September 1979.)

Imagine, if you would, the private cooperation including intelligence information.

The above facts are unpleasant. They have been ignored for too long by State, Defense and National Security Council officials to the detriment of U.S. national security interests.

If Britain, France, West Germany, Italy or Canada ever did any one of these things there would be a public outcry of monumental proportions.

## (4) TURKISH INTRANSIGENCE

The record of Turkish intransigence speaks for itself. Despite the basic lifting of the embargo in October 1975 and the lifting of the remaining partial embargo in August 1978 by the Congress on the expectation that Turkey would cooperate, Turkey has actually hardened its positions regarding Greece and Cyprus and has continued actions which have aided the Soviet Union militarily.

U.S. policy has not worked and cannot work as long as we and others continue to give huge amounts of unconditional aid to Turkey which subsidizes Turkey's occupation of Cyprus, the Turkish military junta's non-NATO Army of the Aegean aimed against Greece, and internal police work by the Turkish Army.

Unconditional aid to Turkey has been self-defeating. If you were the Turkish military junta and you received more aid after aggression than before aggression, what would you do?

The Subcommittee should amend the two-year authorization bill, PL 97-113, to make continued aid to Turkey conditioned on the removal of all Turkish troops and colonists from Cyprus and the return of the refugees to their homes and properties. These and the other policy pronouncements set forth in the International Security Assistance Act of 1978, including the Wright Amendment provisions, should be made into specific conditions precedent to any aid to Turkey.

Without such conditions precedent all aid to Turkey goes to support Turkey's occupation of 40% of Cyprus and for other non-NATO purposes because of the fungible nature of military and economic aid.

## (5) TURKEY IS OF MINIMAL STRATEGIC IMPORTANCE

I disagree with those who contend Turkey is important to U.S. and Western Europe security interests. I assert that Turkey is of minimal importance, militarily and economically, to the U.S., which is another reason, a very practical one, to reject the Administration's proposal.

Let's look at the facts.

The three listening posts are of minimal value. It is acknowledged they cannot substitute for the lost Iranian sites, and that most, if not all, of the intelligence gathered from the sites in Turkey is duplication and can and is being secured by satellites and other listening posts.

The Soviets have achieved their strategic access. The containment policy, whatever its value in the 1950's, is irrelevant today regarding Turkey.

The Dardanelles can be mined by the U.S. or NATO in case of war. Turkey certainly will not close the waterway to Soviet ships.

Turkey's alleged value regarding U.S. interests in the Persian Gulf is a myth. A look at any map will show how far Turkey is from the Persian Gulf and that the USSR's land path to the Persian Gulf is through Iran, with Turkey being off on the side. You cannot reach the Persian Gulf by land through Turkey.

Modern warfare has made Turkey's geographic position of minimal value. Further it would be ludicrous for the U.S. to contemplate a land war against the Soviet Union in or from Turkey.

The Turkish Army will only defend Turkey. If the USSR invades West Germany, Turkey will not declare war on the USSR. The NATO Charter is not mandatory. Each signatory is obligated only to take whatever action it deems necessary and in accordance with its own constitutional processes (See Articles 5 and 11.)

The Turkish Army is oversized and is a drain on the Turkish economy.

Turkey has no strategic raw materials or other economic resources of value to the U.S. or Western Europe.

## (6) TURKEY'S HUMAN RIGHTS RECORD

The respected European Commission on Human Rights of the Council of Europe issued a detailed 200 page report of Turkey's violations of Human Rights in Cyprus (August 31, 1979). See the attached copy of a recent letter from Professors Pollis & Schaar to Chairman Clement J. Zablocki of the House Foreign Affairs Committee regarding violations of human rights in Turkey. (See Attachment No. 3, hereto.) Also see Amnesty International Reports on Turkey. The New York Times, in a front page story on June 3, 1982, reported that Turkey was pressuring Israel to cancel an international conference on genocide. (See Attachment No. 4, hereto.)

## NEED TO REVIEW AND REEVALUATE U.S.-TURKEY RELATIONS

The Subcommittee should undertake a full review and reevaluation of U.S.-Turkey relations.

As stated, Executive Branch policy in the past towards Turkey has not worked. The State Department, Defense Department and National Security hierarchy have been wrong for years on this matter.

Unfortunately the Presidential advisors on this issue in the State Department (Secretary Alexander Haig and Under Secretary Lawrence Eagleburger) and in the Defense Department (Under Secretary Fred Iklé) were part of the group involved in the original Kissinger blunder and violation of U.S. law in 1974. They spend time and taxpayer money trying to justify their bankrupt Turkey policy.

We hope that Judge William Clark, the new National Security Advisor to the President, will take a fresh and independent look at the issue and the President's campaign pledge of September 26, 1980. (See the President's campaign statement, Attachment No. 5, hereto.)

No matter what the Executive Branch does, the Congress has its own constitutional responsibility in the formulation of U.S. foreign policy and should on its own direct a review and reevaluation of U.S.-Turkey relations.

Turkey's conduct these past eight years regarding Greece and Cyprus, her rapprochement with the Soviet Union since the early

1960's, and her active aid to the Soviet Union in the 1973 Mid-East War and denial of assistance to the U.S., Turkey's conduct during the U.S. crisis with Iran, and her telling the United States to clear it with Moscow regarding U-2 flights over Turkey, call for a review and reevaluation of our relations with Turkey. A review and reevaluation should consider questions such as:

What is the full extent of Turkey's de facto military cooperation with the Soviet Union?

What is the full extent of Turkey's economic relationships with the USSR?

Has Turkey, in effect, become Finlandized?

Would U.S. interests be better served with a neutral, non-aligned Turkey? Would neutrality make it more difficult for Turkey to cooperate militarily with the Soviet Union?

How reliable is Turkey as an ally?

What is the military value of Turkey to NATO and the U.S.? And what are the alternatives to that value?

Are Western military secrets safe with Turkey?

Would Turkey declare war on the Soviet Union if the Soviet Union attacked West Germany? If the Soviet Union moved on the Persian Gulf through Iran?

What economic resources does Turkey have, if any, that are vital to U.S. interests?

What is the significance of Turkey's downgrading its diplomatic relations with Israel from the Ambassadorial level to the Consular level?

What is the probability of Turkey's use of U.S. arms against Greece? Against Israel?

What is the extent of human rights violations by the Turkish military junta in Turkey? What is the impact on the substantial Kurdish minority?

What is the extent of human rights violations by the Turkish military junta in Cyprus?

Our concern is with the Turkish leadership, not with the Turkish people. It is the Turkish leaders not the people who have violated international law and bilateral agreements and who have committed aggression.

## CONCLUSION

For all the reasons mentioned above, the Subcommittee, in the interests of U.S. domestic and foreign policy, including national security considerations, should:

1. unanimously reject the Administration's unconscionable and unreasonable request to increase military and economic aid to Turkey for fiscal 1983 from $704.2 million to $820.1 million, a $115.9 million increase;

2. stop all grant aid to Turkey and use the dollars instead for U.S. defense and domestic needs, including reduction of our huge federal deficit;

3. make aid to Turkey conditioned on the removal of all Turkish troops and colonists from Cyprus and return of the refugees to their homes and properties. These and the other policies set forth in the International Security Assistance Act of 1978, including the

Wright Amendment provisions, should be made into specific conditions precedent to any aid to Turkey;

4. drastically reduce the astronomical amount of $704.2 million in aid to Turkey to, at most, $100 to $150 million and make this amount subject to the conditions precedent mentioned above; and

5. undertake a full review and reevaluation of U.S.-Turkey relations.

Foreign aid has often been used as a crutch to avoid reality and hard decisions. Foreign aid to Turkey is a prime example. For domestic and foreign policy reasons, including our present economic crisis with its 9.5% unemployment, its astronomical federal deficits, our domestic needs, and the urgent and vital need to cut federal spending, we can no longer afford this folly.

Thank you, Mr. Chairman and members of the Subcommittee.

ATTACHMENTS FOLLOW:

ATTACHMENT NO. 1

THE WALL STREET JOURNAL, THURSDAY, MAY 13, 1982

# How About Turkey's 'Aggression' Against Cyprus?

To the British, as the world now surely knows, the rape of defenseless islanders and indeed the very notion of aggression and expansionism are intolerable. Devotion to principle has already left in its wake those bodies at the bottom of the South Atlantic. But this indignation is newly minted.

## Viewpoint

by Alexander Cockburn

In July and then in August of 1974, the Turkish army took over 36% of the territory of Cyprus—a country Britain was pledged by treaty to defend—thus seizing 60% of that nation's economy. No less than 200,000 people, a third of the Greek populace, were uprooted from their homes. The Turkish soldiers comported themselves with the military gallantry that has characterized their operations down the centuries and which rose to its most conspicuous heights in the sack of Smyrna and the pillage of Armenia in 1916.

To such battle honors a fresh and bloodstained pennant was affixed in the summer of 1974, and by design. The Turkish invader wished to ensure that he would capture only territory and property, from which all vestiges of Hellenism would be extirpated, without the inconvenience of a subject population. The Greek Cypriots had good reason to flee.

Major civilian centers, including the capital city of Nicosia, were bombed and napalmed, at will since the Cypriots had no air defenses. The true casualty rate is still hard to estimate, since 2,000 Greek Cypriots are still posted as missing. Many of them were identified through photographs as being prisoners of the Turks. They have never been seen since.

A subsequent report by the European Commission on Human Rights convicted the Turkish army of rape, looting and massacre of civilians. In the wake of the frightful rapine the Cypriot church was compelled, much against its canonical teaching, to amend its law against abortion.

What provoked the Turkish onslaught?

On July 15, 1974, the colonels then ruling Greece, well supplied with U.S. weaponry, attempted to invigorate their slackening grip by military adventure, in the form of a *Putsch* against Archbishop Makarios, president of Cyprus. Secretary of State Henry Kissinger both knew and approved of this operation in advance. Not the least terrible consequence of this Greek fascist enterprise was the furnishing to the Turks of a long-awaited pretext for invasion. The excuse, thin enough at the time, was that Turkey would restore constitutional order, ravished by the Greek colonels.

The Turks have instead created a colony and a military occupation in the northern tier of the island. The city of Famagusta, once flourishing, now stands vacant in the Turkish zone. Its approaches are guarded by the Turkish army and its former Greek inhabitants sit in camps to the southward, in many cases separated only by barbed wire from their homes. Depopulated areas in the north are being seeded by the Turks with Anatolian colonists. Since the constitution of Cyprus explicitly rules out partition or annexation by any guarantor, Turkish professions to uphold that constitution are evidently void.

Like Argentina, Turkey and its generals were closely allied to the United States. Unlike Argentina, Turkey did not incur its ally's displeasure and support for its victim. The U.S., having endowed Turkey with the weapons it used to attack Cyprus, did nothing to arrest the conquest and now counts the Turkish military junta high on its list of friends.

Prime minister of Turkey at the time of the invasion was Bulent Ecevit. Ecevit it was who let the Turkish army out of its cage and who found himself subsequently unable to get it back in again. He now languishes in prison at the pleasure of General Evren. The leader of the Greek exiled opposition in 1974 was Andreas Papandreou, regarded by the U.S. as a dangerous subversive. Mr. Papandreou warned of the colonels' adventure and denounced it before it took place. He is, of course, now prime minister of Greece, elected by an overwhelming majority, in part because of his pledge to undo the occupation of Cypriot territory.

Since, in the wake of Argentina's seizure of the Falklands, some sort of a public debate is in progress (not conspicuously on the editorial page of The Wall Street Journal, I might add) about the moral timbre and reliability of the allies the United States has mustered over the years, let us take our eyes off Argentina and consider a possible host nation of Jeane Kirkpatrick's next supper party: Turkey.

Like Argentina, Turkey has been prudent in times of war and aggressive in times of peace. In World War II, it adopted a posture of benevolent neutrality—with the benevolence being reserved for the Axis powers. Today, while Turkey is showered with U.S. economic and military aid by reason of its common border with the Soviet Union, its guns and most seasoned soldiery are facing Greece and occupying Cyprus. Other detachments suppress the Kurds and all vestiges of freedom and dissent in Turkey itself.

In Turkish prisons, according to innumerable reports, torture is an administrative practice and victims of the torturers have died under "interrogation." The press is muzzled. Constitutional and legal processes have been eliminated. Turkish labor leaders, not accorded the international sympathy afforded Poles, are on trial for their lives.

None of this has perturbed, even momentarily, the warm relationship between the Turkish generals and U.S. aid. Indeed proposed aid to Turkey this year puts it almost in the same league as Israel and Egypt. In bold contrast, the very week that Prime Minister Papandreou made a state visit to Cyprus, Secretary of State Haig announced that U.S. aid for Cypriot refugees and for reconstruction would be cut off.

The *Realpolitik* seems to be this: Turkish dictatorship is preferable to Greek democracy. Military occupation of Cyprus is preferable to the hazards of Cypriot self-determination. A country's soundness is judged by its willingness to host American bases, a policy not only brutal but stupid since the experience of U.S.-backed military rule in Greece has created a majority that wishes nothing less than the withdrawal of all American forces.

Cyprus sits at the center of this Gordian knot. Resolutions in the United Nations and other international bodies demand the reunification of Cyprus and the withdrawal of the Turkish invader. The United States subscribes to such resolutions. But its actions belie its words. Who can believe, when Mr. Haig next visits Ankara to discuss topics of mutual concern, that he will urge upon his hosts a rapid return to democratic rule or indeed the need to oblige the West (no two NATO countries have ever been at war with each other, except over Cyprus) by abandoning colonial endeavors to the south?

One policy could help to redeem the crimes and blunders of the past, and it was perhaps best expressed by William Gladstone in his famous speech to the voters of Midlothian, during the Turkish atrocities in Bulgaria: "Let the Turks now carry away their abuses in the only possible manner, namely by carrying off themselves, their Zaptiehs and their Mudirs, their Bimbashis and their Yuzbachis, their Kaimakams and their Pashas. One and all, bag and baggage, shall, I hope, clear out from the province they have desolated and profaned."

*Mr. Cockburn is a columnist for the Village Voice.*

ATTACHMENT NO. 2

## LUTTWAK QUOTE

No longer presenting a direct threat to the integrity of Turkish national territory, and no longer demanding formal revision of the Straits navigation regime, the Soviet Union has nevertheless successfully exercised armed suasion over Turkey, even while maintaining a fairly benevolent stance, which includes significant aid flows. Faced with a sharp relative increase in Russian strategic and naval power, and eager to normalize relations with their formidable neighbor, the Turks have chosen to conciliate the Russians, and have been able to do so at little or no direct cost to themselves. It is only in respect to strategic transit that Turkey is of primary importance to the Soviet Union, and this is the area where the concessions have been made. Examples of such deflection, where the Russians are conciliated at the expense of western rather than specifically Turkish interests, include the overland traffic agreement (unimpeded Russian transit to Iraq and Syria by road), the generous Turkish interpretation of the Montreux Convention, which regulates ship movements in the Straits, and above all, the overflight permissions accorded to Russian civilian and military aircraft across Turkish air space.

The alliance relationship in NATO and with the United States no doubt retains a measure of validity in Turkish eyes, but it is apparent that its supportive effect is not enough to counteract Russian suasion, especially since the coercion is latent and packaged in a benevolent, diplomatic stance.

Luttwak, The Political Uses of Sea Power,
Johns Hopkins Press, 1974,
pp. 60-61.

ATTACHMENT NO. 3

THE GRADUATE FACULTY
NEW SCHOOL FOR SOCIAL RESEARCH
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741-5747

ENT OF POLITICAL SCIENCE

April 23, 1982

Hon. Clement J. Zablocki, Chairman
House Foreign Affairs Committee
House of Representatives
Washington, D.C., 20515

Dear Mr. Chairman:

I would like to protest the proposed level of military and economic aid to Turkey which is under consideration by Congress. The increase is $115.9 million over the existing amount of aid, from $704.2 million in 1982 to a projected $820.1 for 1983.

While recognizing that the south-east flank of NATO is important for the United States' military and security interests, the Reagan administration's policy toward the Turkish military junta is counterproductive. It is reminiscent of the policies of earlier administrations which supported the Greek military junta (1967-1974). The long run consequences of that policy rationalized in terms of the stability and security prevailing in Greece and Greece's importance to United States' national interests, were to strengthen anti-Americanism and to accelerate the political process which brought the socialist government to power in Greece in October 1981. Furthermore as became painfully apparent at the time of the Cyprus fiasco in 1974 the Greek armed forces were disorganized and incompetent.

The Reagan administration is repeating all the mistakes the United States made at the time of the Greek military junta. It is supporting an anti-democratic repressive military junta engaged in torture of political prisoners with deaths resulting in numerous cases. Freedom from torture is a right embodied in several human rights documents. The European Convention on Human Rights to which Turkey is a signatory does not allow for derrogation of this provision even if a country "justifiably" proclaims a state of emergency. The Council of Europe considers the violations of human rights by Turkey sufficiently extensive to warrant censoring Turkey and to consider its expulsion from the Council of Europe in the foreseeable future. It should be recalled that Greece withdrew from the Council the day prior to the vote for expulsion of Greece in 1969.

Some of the human rights violations in Turkey are the following:

a. Approximately 100,000 political prisoners. This includes artists, professionals, teachers, members and officers of trade unions.

b. Torture of political prisoners continues unabated and according to Le Monde as of January 1982, 72 people died in prison since the military coup of September 12, 1980. The Turkish authorities themselves have admitted that 15 people died from torture.

c. Massive repression of the Kurdish and Armenian minorities.

d. Political parties have been disbanded and there are no plans for restoration of free political activity in the future. Bulent Ecevit, former leader of the Republican People's Party, has been arrested for speaking out and faces a minimum five year prison term.

As was the case in Greece during military rule much of the military aid the United States provides to Turkey is not necessarily used to strengthen military defenses against a threat or danger from the east. It can be used for internal repression and to strengthen Turkey in its conflict with Greece, another NATO ally. Furthermore economic aid in the past has not been used to benefit the Turkish people; it has gone primarily towards alleviating immediate balance of payments deficits and budgetary needs and not to programs which alleviate poverty.

United States support of the current Turkish military junta further intensifies the already existing strains between the United States and its European allies. By contrast to Europe's condemnation of the military regime and the European Economic Community's freezing of the associate agreement with Turkey, United States aid is resulting in the isolation of the United States from its allies.

American support of the Turkish military junta and increased military and economic aid is contrary to United States national interests. In the short run it bolsters the repressive dictatorship. The Turkish military with United States' approval can pursue its own national interests which are not the same as those of the United States. In the long run the United States is running the risk of growing anti-Americanism both among the Turkish populace and among the minorities in Turkey.

Respectfully yours,

Adamantia Pollis
Adamantia Pollis
Professor of Political Science
New School for Social Research

Stuart Schaar
Stuart Schaar
Professor of History
Brooklyn College, CUNY

ATTACHMENT NO. 4

The New York Times

JUNE 3, 1982

# Parley on Genocide in Doubt; Pressure by Turkey Reported

Special to The New York Times

PARIS, June 2 — The Israeli Government is trying to induce the organizers of an international conference on genocide to cancel it. The only reason the Israelis give publicly is that the conference, scheduled to open in Tel Aviv on June 17, would threaten "the humanitarian interest of Jews."

Behind this brief explanation, there is reportedly another one. The leaders of the conference, which was to bring together some 200 scholars from around the world, have been told by Israeli officials that Turkey has threatened not only the severing of diplomatic relations with Israel but also the lives and livelihood of the 18,000 Jews in Turkey.

Turkey was said to object to the inclusion in the conference program of papers by Armenian scholars on the massacre of Turkish Armenians early in this century, notably in 1915, when they were accused of aiding Russian troops against Turkey in World War I.

In retaliation, Armenian terrorists have long been threatening Turkish officials, and a number of Turkish diplomats have been assassinated.

The issues raised by the reported Turkish warnings to Israel were discussed here today by the conference president, Elie Wiesel, a professor at the College of the City of New York and a writer on the killing of Jews in German concentration camps under Hitler.

Professor Wiesel, who is visiting Paris, said that two days ago he advised other prospective participants at the conference that he would resign as president unless it was postponed. It was an action, he said today, that he took with the greatest anguish, and only after deciding that he could not support an event, however worthy, that put lives at risk, however unjustly.

"One life is more important than anything we can say about life," he said today in discussing the pressures he said were brought on him and other conference leaders by the Israelis.

In Jerusalem, a Foreign Ministry official confirmed that the Government had asked the organizers at Tel Aviv University, the host institution, to cancel the conference, but he denied that Turkey had made threats or had been involved in any way.

The Israeli official would not comment on Professor Wiesel's account of threats' being delivered by a delegation of Turkish Jews who visited Israel in the last few months. The official declined to say why the Government believed "the humanitarian interests of Jews" would be threatened.

The status of the conference is unclear at the moment. According to Professor Wiesel, two institutions — Tel Aviv University and the Yad Vashem Holocaust Memorial Institution — have indicated that they will not participate.

On the other hand, the principal organizer, Prof. Israel Czarny of Tel Aviv University, has up to now insisted on going ahead. Professor Czarny could not be reached today for comment.

### Armenian and Cambodian Cases

Professor Wiesel said he approved of the conference, which was to have discussed not only the fate of Jews under Hitler, but other forms of mass repression. In addition to the Armenian case, the program was to have dealt with the decimation of the Cambodian population under the Communist regime of Pol Pot in 1975-78.

According to Professor Wiesel, he was told by an Israeli official six weeks ago that the Turks had let it be known there would be serious difficulties if Armenians took part in the conference. Relations between Turkey and Israel, though cool, are of importance to the Israelis, for whom Turkey is one of the few nonhostile Moslem countries.

Professor Wiesel said he first told the Israelis that he declined to alter the conference arrangements, adding, "I will not discriminate against the Armenians, I will not humiliate them."

### Two More Messages from Israel

He then received another message from Israeli officials. This one said that a delegation of Turkish Jews had visited Israel to warn that there would be reprisals against Jews in Turkey if the conference was allowed to proceed as planned. A third Israeli message followed, reporting a threat that Professor Wiesel, without wishing to reveal it, said was even more serious.

He said that, at this point, he felt he had to act. He would not consider excluding the Armenians, he said.

"The Torah says that to humiliate someone publicly is murder," he said. "And furthermore, Hitler justified the persecution against the Jews to some of his generals by saying: 'Look, who remembers what happened to the Armenians?' I would like to show that I remember the Armenians."

He tried to persuade Professor Czarny and his associates to postpone the conference and to reschedule it outside Israel. When Professor Czarny refused, Professor Wiesel sent out the telegrams announcing that he would resign. This, he thinks, may cause enough people to reconsider so as to make postponement more likely.

ATTACHMENT NO. 5

Friday, September 26, 1980

## STATEMENT BY THE HONORABLE RONALD REAGAN ON GREECE, CYPRUS, TURKEY

For the last quarter of a century, both Greece and Turkey have been close and valued allies of the United States. They also have been indispensable members of the Atlantic Alliance protecting NATO's southeastern flank. However, several disputes between Greece and Turkey have seriously damaged our alliance over the past several years; in particular, the differences regarding Greece's reintegration into the military command structure of NATO, the dispute about Cyprus, and conflicting claims concerning the Aegean continental shelf. These issues must be resolved before any real cooperation and lasting friendship can be achieved between Greece and Turkey.

In 1976, while campaigning for the presidency, candidate Jimmy Carter stated, "We would be negligent of the moral issues and courting longer-range disaster if we fail to couple the improvement in relations with Turkey with increased fair progress on the Cyprus issue." And in a news release dated September 16, 1976, he declared, "The impasse on Cyprus must be broken. The United States must be prepared to work with others, including the United Nations, to insure the independence, territorial integrity and sovereignty of Cyprus.... If and when I am elected President, I intend to enforce and carry out the provisions of the statement."

Given those words, one might have assumed that something positive regarding a settlement would have emerged by now. As in so many other cases of Carter's campaign declarations and promises, he reneged on his pledges.

I support the reintegration of Greece into the military command structure of NATO. A formula for reintegration was proposed in July 1978 by the then Supreme Commander of NATO and agreed to by virtually all members of NATO.

The reintegration of Greece into the NATO military command structure is of vital importance to the security interests of NATO and the United States. Greece's departure from NATO would isolate Turkey and put Turkey's defense position in serious jeopardy. Such a turn of events also would weaken the security of Italy and the Eastern Mediterranean in general.

The tragic situation in Cyprus has lasted six years. It must not continue. The foreign military forces on that island should be substantially reduced, and Cypriot refugees, be they Greek or Turkish, should be permitted to return to their homes and land.

I support the full implementation of unanimously approved United Nations Resolution 3212 of November 1974 which

> "Calls upon all States to respect the sovereignty, independence, territorial integrity and non-alignment of the Republic of Cyprus and to refrain from all acts and interventions directed against it; Urges the speedy withdrawal of all foreign armed forces and foreign military presence and personnel from the Republic of Cyprus, and the cessation of all foreign interference in its affairs."

As to the disputed territorial claims regarding the Aegean continental shelf, the best course in this situation would be to submit the claims to final and binding arbitration by an international tribunal, as has been done by other nations in similar situations.

Senator **Kasten**. Thank you. I also thank you for your patience. I saw that you were waiting all afternoon. We evidently have put people in the order in which we received requests.

One issue that you brought up indirectly, but which has been of concern to the Congress is the fact that in this year's request the administration is requesting once again no funds for Cyprus. That has been a question that has come up in previous hearings on the 1983 budget. If you could give me a statement in terms of Cyprus.

Mr. **Rossides**. I would like to, Mr. Chairman.

As you just indicated, the 2-year bill passed in December provided for a $15 million authorization for Cyprus for each of the 2 years, is my understanding.

The administration this year has seen fit not to come up with any increase, despite an increase of $115 million requested for Turkey. We think it is rather shocking. This humanitarian aid of $15 million has been used extraordinarily well by Cyprus.

One of the Congressmen, Congressman Livingston in the House Foreign Operations Committee, stated that he had visited the island and thought that it was the most extraordinary use of U.S. aid that he had seen anywhere in the world when we talk about proper use of aid.

We would urge very, very much the humanitarian and symbolic importance of that $15 million, Mr. Chairman.

Senator **Kasten**. I think that the subcommittee also looks, I believe, with favor upon some kind of an effort in that direction. It is going to be difficult to know what the amount is going to be, but I have had an opportunity to visit with a number of individuals directly concerned with the Cyprus problem, including people representing the Cypriot and the Greek Governments.

Mr. **Rossides**. Right.

Senator **Kasten**. I think that the committee ought to give strong consideration to some kind of an effort within the limited budgetary constraints.

Mr. **Rossides**. Oh, yes.

Senator **Kasten**. The constraints that we are working with and dealing with.

Mr. **Rossides**. We are here to ask for decreases in the budget, but we do feel that this is one exception on the Cypriot humanitarian one.

Mr. Chairman, you have raised the issue with the lady previously regarding developmental funds and economic support assistance.

Whereas I tend to agree with your analysis regarding economic foreign assistance, I think there is a distinction between normal economic support funds and economic support funds which in effect because of their fungible nature—regarding Turkey—are really used to support aggression and an occupation army. That is a big difference from saying you have economic support funds for a nation.

I think there is an example where they are in no way connected with development or proper use, which is the concept of the economic support assistance.

Senator **Kasten**. Gene, thank you for your testimony here today. We look forward to working with you and the organization which you represent.

Mr. ROSSIDES. Thank you so much. We appreciate your patience, Mr. Chairman. We did come early, we did not realize when we were on. But we want to say that your patience and the patience of the persons with you has been wonderful to see, with all of the different people that have come before you.

Thank you.

Senator KASTEN. Thank you.

Mr. George Radcliffe.

Mr. Radcliffe is the assistant executive director of CARE. Thank you for your patience, and we are happy to have your testimony. Mr. Radcliffe.

## CARE

### STATEMENT OF GEORGE RADCLIFFE, ASSISTANT EXECUTIVE DIRECTOR, CARE

### ACCOMPANIED BY CHARLES SYKES

Mr. RADCLIFFE. Mr. Chairman, CARE is very pleased to have this opportunity to once again appear before your committee.

On my left is Mr. Charles Sykes, a colleague of mine

Senator KASTEN. I might ask that you move the microphone 4 or 5 inches closer to you.

Mr. RADCLIFFE. Due to the rain in New York my voice is affected.

Senator KASTEN. Well, then maybe move it 6 or 7 inches closer, get right on top of it.

Mr. RADCLIFFE. Between us we have approximately 35 years of working in the developing world. As mentioned, I am in charge of our overseas operations, and I have served in Ecuador, in Guatemala, in Honduras, in Sri Lanka, in Haiti, in Tunisia, and in Chad.

The nature of CARE's work, of course, puts its people in continuous exposure with the basic human needs which are also prevalent in the lesser developed countries. It permits our representatives a perspective on development and requirements that is not normally visible to the U.S. public.

CARE supports the humanitarian objectives of the International Security and Development Act. It is our belief that the riches of this great country must be shared on an ever increasing basis with the countries that are in need.

Thus, the decline in the fiscal year 1983 appropriation levels for health is of particular concern to us. Adequate health is an underlying requirement for successful development. It is unrealistic to expect that those ravaged by hunger and disease perform in a productive manner.

In order to provide some life to my testimony and because I did serve in Chad and have a particular interest in sub-Saharan Africa, I thought I would share with you a few examples of the projects that we conducted in that country, projects which for the most part involved USAID funding, shared funding, and which, although the conditions in Chad—and regrettably the conditions have even worsened since I left—are extremely difficult, I felt that we did have successful projects and, with your permission, I would like to briefly outline them.

The largest of the projects that we undertook was the planting of acacia albida trees. We worked with approximately 2,000 subsistance level farmers and planted thousands of acres of trees which, when planted, will upgrade the soil, increase crop yields, and provide animal fodder.

In addition, this particular project introduced the concepts of live fencing, of wind breaks, and provided shade and fruit trees to the local population.

A second project—and once again in involvement with AID—was the construction at the village level in several hundred villages working with the village leaders to put together silos, communal grain silos, built on an African design, upgraded through a cement slab which was the major innovation. This permitted this area of Chad, the people in this area of Chad, to protect their grains from post-harvest loss which at times ran as high as 50 percent. Their habit being of keeping the grain either in the ground or in open silos above ground.

A third project involved the utilization of Public Law 480 commodities in small food-for-work projects such as the opening of farm-to-market roads; the clearance of land; the introduction of fish culture, and several other small projects of that nature.

Mr. Chairman, basically we have one single recommendation to make. Given the ever-growing need in the developing world we believe that the overall fiscal year 1983 appropriation levels for humanitarian and development assistance should be reaffirmed and strengthened.

In a more concrete sense we recommend that the adoption of a resolution to raise the level of official U.S. development assistance from the present approximately one-quarter of 1 percent per annum to approximately three-quarters of 1 percent on the GNP level, which is essentially the UN target.

Such a commitment would reassert U.S. leadership in international development. It would also help to promote global security and economic stability, while meeting the basic human needs of the many people in Africa and other nations.

We appreciate this opportunity to appear before you. Should you, Mr. Chairman, or members of your staff or committee be traveling in a country in which CARE is working, we would be very pleased if we could show you some of the programs that we are conducting.

If you have any questions, I would be delighted to answer them.

[The prepared statement of George Radcliffe follows:]

## PREPARED STATEMENT OF GEORGE RADCLIFFE

### ASSISTANT EXECUTIVE DIRECTOR

### CARE

Mr. Chairman: CARE is pleased to have this opportunity to once again appear before your Committee. My name is George Radcliffe. I am Assistant Executive Director of CARE in charge of Overseas Operations and Programs. I have served as Director of CARE's Program in TChad, Tunisia, Honduras and Guatemala. CARE has a long history of partnership with AID and many developing countries.

We believe that CARE's 36 years of experience in the field of international relief, rural development and basic human needs programs at the grass roots, people-to-people level in the Third World provides this Committee with a unique perspective on the development process; a perspective which speaks in favor of those ensnared at a level of poverty which most Americans have been spared and few have witnessed.

The most morbid manifestation of poverty is hunger. In food deficit developing countries and regions, CARE has long worked on the premise that the problems of hunger and chronic undernourishment must be tackled either before or concurrently with the problems of rehabilitation and development.

There are many resource poor societies which are still undernourished, disease-ridden - with high illiteracy rates and low levels of productivity. However, we note a very sharp decline in the FY83 appropriations level for health, e.g. Section 104 of the Foreign Assistance Act of 1961. We know that health and productivity are inextricably linked in the development process. The morbid, debilitating and sometimes fatal results of measles, malaria, dystentery and schistosomasis are still daily occurences in the lives of millions of people in less developed countries. WHO's record in the field of international health has been outstanding. For example, smallpox has been totally eradicated. The amelioration of similar health problems is not beyond our reach; however, there does appear to be a weakening of resolve and commitment to remedy these problems.

We would like to call to the attention of this Committee the need for accelerated development efforts in Sub-Sahara Africa and a general expansion of self-help and basic human needs programs in health, education and agriculture. Health data show that Africans have the poorest health in the world. What is more, they appear to be losing ground relative to the populations of other regions in terms of rates of improvement. This is reflected in existing crude death rates and their rates of decline since 1950/55. Forty percent of the population south of the Sahara is malnourished and 25% of these children die before the age of 5.

Intestinal diseases, while especially common, are often not reported. Where water supplies and sanitation are not safe, most of the population can be infected. Intestinal diseases account for about 30% of all deaths, with amœbic and vacillary dysentery the major causes of loss of time from work among adults. Control of dysentery amd intestinal parasites will depend upon changing the behavioral patterns affecting sanitation.

Measles, tragically, is the main killer of small children; it is tragic because it is easily prevented and the main constraint is a technical one - simply the maintenance of an appropriate temperature range for the vaccine. Mortality from measles can also significantly be reduced with better child nutrition.

Morbidity and mortality attributable to infectious diseases and nutritional status are closely linked. The undernourishment of large segments of the African population, mostly in rural areas, reduces their resistance to disease and serves to increase morbidity and mortality rates.

AID Assistant Administrator Frank Ruddy pointed out in his Statement before this Committee on May 11, 1982:

> "Throughout the 70's the average annual per capita growth rate in agriculture, Africa's most important economic activity, was minus 1.4 percent for all crops (and that) at present, average annual growth in per capita GNP is projected between 1-0 percent and negative 0.1 percent between 1980 and 1990."

A recent World Bank report entitled Accelerated Development in Sub-Saharan Africa: An Agenda for Action highlights the severity and complexity of the problems facing many of the countries of Sub-Saharan Africa in their efforts to raise the living standards of their people. The World Bank has concluded that a fourfold increase in net disbursements of official development assistance to Africa between 1980 and 1990 - from $4.9 billion to $17.8 billion (a near doubling in real terms) is required in combination with substantial policy reform for per capita income in oil-importing Africa to increase a mere 25% over the current level of $316. Without these increases in aid, stagnation is virtually assured.

Mr. Chairman, I would like to talk about some of the projects I managed while serving as CARE's Country Director in TChad which are relevant to the problems I have just outlined:

## Acacia Albida Project

CARE began this project during FY '75 to assist subsistance level Chadian farmers in the drought-stricken rural southwest region to increase their agricultural production and incomes by planting acacia albida, neem and comphora trees. These trees not only improve soil conditions, crop yields and reforestation efforts, but also provide live fencing, fodder and a source of firewood. CARE was assisted in this project by the TChadian Forestry Department and by the Peace Corps. Four Peace Corps volunteers, as well as one forestry engineer, eleven forestry agents, and two specialized nursery workers from the Forestry and Water Departments assisted CARE in providing training in soil conservation and improved farming methods to participating farmers. In FY 1979, there were 2,109 farmers participating in the project.

Under the provisions of this grant, CARE was responsible for administering the project. CARE's responsibilities included the establishment and operation of tree nurseries, the training of farmers and Chadian Government personnel, the preparation of educational materials, procurement of materials and equipment , and evaluation.

As part of CARE's reporting obligations under the grant, a mid-point evaluation was prepared in April 1978 with assistance from Consultants in Development, an independent consulting firm. This evaluation was undertaken to improve the implementation and impact of the project and to consider the implications of this experience for future development programs in Chad and other areas of the Sahel. Interim progress reports indicated that, from 1975 to 1977, approximately 4,303 hectares of acacia albida had been planted. During FY 1979 an additional 3,500 hectares were replanted. Although this successful project was abruptly interrupted as CARE suspended operations in Chad when country conditions became untenable in early 1980, the project had already made a substantial contribution to land stabilization and agricultural development for the people of Chad.

## Other Basic Human Needs Projects in TChad

CARE returned to TChad in 1981 under an agreement with the Government of TChad and the UNHCR to assist in the repatriation and resettlement of TChadian refugees from Cameroon and the reconstruction of the capitol of N'Djamena. Once some modicum of peace returns to TChad, we hope to resume large scale forestation activities like the Acacia Albida Project.

U.S. voluntary agencies such as CARE will continue to expand their efforts in Sub-Sahara Africa through health, education, agriculture and renewable resources projects and a variety of other basic human needs programs. We hope that the U.S. Government response to this urgent situation in Sub-Sahara Africa will be commensurate with the challenge.

Mr. Chairman, we have a single recommendation to make to this Committee. CARE strongly supports a concept of national security and international cooperation which includes economic development and the conquest of hunger as two of its principal objectives. We believe that the overall FY83 Appropriations levels for humanitarian and development assistance - particularly those facets which reinforce our country's fundamental commitment to basic human needs objectives in the poorest countries - need to be reaffirmed and strengthened in the appropriations process. In order to translate these objectives into concrete action, we recommend the adoption of a resolution to raise the level of U.S. official development assistance (in relation to GNP), now at 0.25%, by .05% per annum until the U.N. target for industrialized countries of 0.70% is reached in FY1991. Such a commitment would firmly reassert U.S. leadership in the field of international development, promote global security and economic stability, help meet the basic human needs through self-development and provide jobs in the U.S.

As underscored by Dean Leo Walsh, College of Agriculture of the University of Wisconsin-Madison in his remarks before this Committee on May 14, 1982:

> "It is particularly appropriate for the United States to be heavily involved in trying to help alleviate hardships which develop because of lack of food. Our own agricultural capabilities allow us the luxury of generosity in times of need to those less fortunate, and some old-fashioned American common sense allows us to recognize the long-range value to ourselves of helping

> the developing countries. These countries purchase 30 percent of all U.S. exports and constitute our fastest growing overseas market. One out of eight jobs in U.S. manufacturing, and one of every three acres of U.S. farmland produce for export."

Mr. Chairman, we appreciate this opportunity to appear before your Committee. Should you or any members or staff of your Committee have an opportunity to visit countries with CARE or other PVO programs, we hope you will take the time to visit some of our project sites and see for yourselves the work which is being done in the field, particularly in the Sub-Sahara African countries,

Senator KASTEN. Mr. Radcliffe, thank you for your testimony, and also for the help that you and your fine organization have been to us over the past year.

Although we are never going to agree all the time—and I think there have been times when we have agreed and there have been times when we have disagreed—I want you to know that in our opinion you have consistently done good work. The facts, the information, and the cooperation has been outstanding. I know I am speaking for not only members of the subcommittee but also the staff. We thank you for the work that you are doing.

It is also my understanding that from time to time members of the staff have had an opportunity to directly work with you and see some of the work in the field.

One of the concerns that this subcommittee has had, having to do with the private voluntary organizations, is the fact that a number of them are funded 80, 85, 90 and in some cases almost 100 percent by government funds. And yet, they come under the classification of private voluntary organizations.

I understand that CARE is not one of those, but is in the high percentage brackets. Frankly, you have done an outstanding job in attracting private support or, I should say, nongovernment support. I believe that is one of the strengths of your agency.

Without asking you to "beat up" other PVO's, I wonder if you could comment on the importance of the nongovernment funding of CARE, and how would you react to a requirement that PVO's be required to come up with, let me say, 50 percent of outside money—or do it the other way, that they could only have only 50 percent, or possibly only 60 percent, or possibly 70 percent, whatever it might be, of government funding in order to fall into the category of a private voluntary organization?

Mr. RADCLIFFE. Mr. Chairman, CARE takes a great deal of pride in its ability to raise money from the public sector.

However, one reason that I picked Chad was to show you and your committee the importance of an interaction, a cooperative effort between CARE, USAID, and Peace Corps, and perhaps other agencies.

Frankly, in Chad we used our own money, and we used a great deal of AID money, and I think we were very successful.

In other countries in which we operate, for instance after I left Chad, I went to Honduras in which we had no AID-funded program at all, we used Public Law 480 commodities. But our school construction, our water systems were all funded through the public sector.

So, there is a variance in the makeup of our programs from country to country.

There already exists in the OPG grant system legislation, as far as I know, that requires a 25-percent input on the part of voluntary agencies in order to receive the other 75 percent from the U.S. Government. This was the case in the Acacia Albida project, which is a very large project and essentially came to U.S. Government money to the tune of $1 million, and ours approximately $500,000 or $400,000.

So, I think we basically agree that organizations should bring some money to the projects that they are implementing. But as to the percentage I would like to beg off on providing an answer. Every one of the private voluntary agencies, each works in its own way—we in ours—and we do have a tremendous public response to the needs of our organization.

Senator KASTEN. I understand I am putting you in a difficult position. But I feel very strongly that one of your strengths is the fact that you have this nongovernment support and that it is as broad based as it is.

The Congress has chosen to right now express this in terms of a goal. We are asking people to reach a goal of 20 percent nongovernment support. There are a number of us that feel that that goal possibly ought to be expressed in precise bill language with a prohibition of funding unless a certain percentage is reached. There is still a question of what that necessary percentage ought to be.

But I appreciate your response and once more, let me thank you for your testimony and your statement before the committee today.

Thank you very much.

Mr. RADCLIFFE. Thank you very much, Senator, for your kind words.

Senator KASTEN. I would like to thank all of our witnesses for their testimony this afternoon. I am confident that the views will be taken into consideration as our subcommittee moves to consider the administration's requests for fiscal year 1983 appropriations for Foreign Assistance.

The record of today's hearing will remain open for 1 week, during which time additional statements may be inserted for the record from those who were not able to appear in person.

If any of the Senators of the subcommittee require additional information from the witnesses, the subcommittee will contact you in writing and ask that these answers be provided for the record.

### SUBCOMMITTEE RECESS

Again, thank you for your appearances here today. The subcommittee stands in recess until June 10.

[Whereupon, at 4:50 p.m. Tuesday, June 8, the subcommittee was recessed, to reconvene Thursday, June 10]

# MATERIAL SUBMITTED SUBSEQUENT TO HEARING

[CLERK'S NOTE.—The following correspondence and statements were not presented at the hearing, but were submitted to the committee for inclusion in the record subsequent to the hearing:]

## PREPARED STATEMENT

Submitted by

THE LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

The Labor-Industry Coalition for International Trade (LICIT) believes that the reduction in Eximbank's direct loan authority in FY 1982 was a serious mistake and that further reductions could prove disastrous for important sectors of the U.S. economy. The Congress, in establishing an annual ceiling for Eximbank's obligational authority and in setting limits for the Bank's guarantee and insurance programs, should take full account of the state of international export credit competition. The fact is that right now the industrialized countries of the West are engaged in escalating international competition for jobs and markets utilizing government-supported export finance. While the Administration has sought reductions in Eximbank's operating authority, foreign governments have escalated their financial support for exports.

The United States cannot afford to give up its best industries to the subsidized financing practices of foreign governments. At stake are billions of dollars in manufactured exports and hundreds of thousands of jobs. For the United States the stakes are especially great because the competition is focused in those capital goods sectors where the U.S. has traditionally had a strong comparative advantage. These sectors include commercial aircraft, construction equipment and machinery, extraction equipment and processing plants for primary resources, electric power plants and other heavy electrical equipment and large telecommunication systems.

From 1977 to 1981 the U.S. Export-Import Bank supported export sales of $71 billion upon which 2.2 million U.S. jobs depended. Even so, many U.S. jobs and export sales were lost to subsidized export credits of foreign governments. LICIT released a report (attached) in May of this year which identified, despite the paucity of good information publicly available, the loss of at least $1.5 billion in exports and 46,000 U.S. jobs in 1981 because of unfair competition from other industrialized countries using officially subsidized export credits. These export and job losses occurred in 1981 before Eximbank's direct loan authority was reduced. Although data is not yet available, LICIT believes that these losses of jobs and exports are now, sadly, increasing sharply.

## International Negotiations to Limit Export Credit Subsidies

It is a sad commentary on the conduct of U.S. international economic policy that while U.S. negotiators are trying to obtain international agreement to limit this increasing export credit competition, their negotiating leverage has been unintentionally undercut by other Administration officials who have pressed for reductions in Eximbank operating authority and who have questioned the need for any official export credit program at all. This has frustrated efforts to achieve the result that all American policy-makers desire: the curbing of export subsidies.

Subsidized export credits have been a long-standing international problem. However, the magnitude of the trade being affected and the amount of subsidization being provided today make this issue a major international trade problem that far exceeds the degree of seriousness this issue had even 5 years ago. The OECD Arrangement on Guidelines for Officially Supported Export Credits, agreed to by all OECD countries in 1978, has not been effective in curbing export credit subsidies. In fact the subsidization of export credits has increased dramatically since 1978. Export sales receiving export credit support among the OECD countries have been increasing more rapidly than total exports while at the same time the amount of direct subsidization provided by official export credits has grown even faster. The result has been that in recent years a higher percentage of total OECD exports have been receiving official export credit support along with a greater degree of direct subsidization of these credits.

The United States negotiators have been aggressively pursuing changes in the Arrangement in order to make it an effective instrument for curbing the wasteful international competition utilizing government-subsidized export credits. The U.S. objective is to establish a differentiated rate system where the basic minimum interest rate for each currency would be determined by its market rate of interest. Despite these U.S. efforts to improve international discipline with respect to subsidized export credits, an arrangement that effectively curtails competition utilizing subsidized official financing has not yet been achieved. The most recent OECD negotiations broke down May 6 over a refusal by a number of countries from the European Community to agree to further increases in the minimum interest rates in the Arrangement. The OECD has given the EC until June 15 to try to reach internal agreement on the new terms of the Arrangement. Press reports from Europe indicate that this is not a likely possibility.

## Recommendations

LICIT believes that, in large part, the failure of other countries to agree to increase the effectiveness of the OECD Arrangement is because they do not believe the United States is committed to combatting government supported export credits. The time has long since come when the United States should begin to back up its negotiating rhetoric with action.

The foundation of U.S. export credit policy in the near-term must be based on a financially competitive Eximbank that has adequate authority to ensure that no U.S. exports or jobs are lost solely because of unfair export credit subsidies provided by foreign governments. The decision taken by the Administration to seek reductions in Eximbank's obligational authority for FY 1983 must be reversed. Moreover, the level of obligational authority set for FY 1982, a reduction of 19 percent from FY 1981, must be reevaluated in the light of current international competition and the number of export transactions lost to foreign subsidized export credits.

The policy of the Eximbank must be to use the authority Congress provides it to assist U.S. exporters in meeting international competition utilizing officially subsidized export credits. If, as expected, the EC rejects the most recent proposed changes in the Arrangement (which still leave U.S. exporters at a competitive disadvantage), the U.S. must respond appropriately. We should be prepared to consider seriously further increases in Eximbank's direct loan authority and passage of the so-called "war-chest" bills. These bills, introduced by Senator Heinz (S. 868) and Congressman Neal (H.R. 3228) would authorize an appropriation of $1 billion for a competitive export subsidy fund. The fund would be used to directly subsidize interest rates on private export credit in order to induce our competitors to negotiate an end to subsidized export credits.

U.S. negotiators should continue to aggressively pursue the objective of eliminating any subsidy element in official export credits. The goal of international negotiations in the OECD should be a system based on market interest rates and repayment terms where the primary function of official export credit agencies would be to provide guarantees and insurance when needed to overcome imperfections in international capital markets. A system based on market rates and repayment terms in the currency in which the official export credit is denominated would allow no direct interest subsidy. Capital goods exports would then compete in international markets on the basis of price and quality, not on subsidized rates for official exports. A necessary requirement for such an official export credit arrangement is that any official export credit agency should have access to financing in any of the other participant's currencies. This would deal with the potential problem posed by large interest rate differentials in various currencies where countries with lower domestic interest rates could provide export credits at rates below those countries with higher domestic interest rates.

While the major negotiating effort should be directed at obtaining a market-oriented system of export financial support, other issues will have to be addressed. These include the issues of enforcement and the treatment of mixed credits (a package combining export finance and development assistance grants which makes the interest cost of the "mixed" package substantially less than the market rate). It may be that the best way to deal with the enforcement issue, once agreement on a market-based system is attained, is to bring the Arrangement under GATT auspices. Currently the Arrangement is exempted from coverage under the subsidies code.

There are obviously technical difficulties in perfecting such a system for the OECD Arrangement. Ultimately the issue is one of attaining a political consensus among the competing countries. This is the main reason why the U.S. Export-Import Bank must not be curtailed in any way if the objectives described above are to be achieved.

DAWSON, RIDDELL, FOX, HOLROYD & JACKSON, P. C.
ATTORNEYS AT LAW
SUITE 723
WASHINGTON BUILDING
WASHINGTON, D. C. 20005

June 22, 1982

Mr. John T. McCarthy
Chairman, Interagency
Staff Coordinating Group on
  Expropriation
EB/ITD/OIA
Room 2533A
Department of State
Washington, D.C. 20520

Dear Mr. McCarthy:

I am indeed most appreciative of your letter of May 20, 1982, expressing the continued interest of the Department of State and the Interagency Expropriation Group in working out a settlement of the claim of Sea Oil & General Corporation (Sea Oil) against the Government of Indonesia. Unfortunately, as my office advised you, this letter arrived during my extended absence from the country. I therefor trust you will understand my delay in responding.

When Indonesia was faced with the loss of its foreign aid from the United States, it realized that it must do more than it had done in the previous 24 years to create an impression that it is seriously giving attention to the Sea Oil claim, so that payment of U.S. aid funds could therefore continue.

The result was an offer to "arbitrate" before a single arbitrator which the U.S. attorney representing Indonesia pre-selected and pre-contacted, on narrow issues determined by that attorney, which issues are irrelevant and never before cited by Indonesia in 24 years, in a tribunal which lacks jurisdiction and which could extinguish the Sea Oil claim forever on jurisdictional grounds alone, at a location of the attorney's choice, and without any guarantee that the Government of Indonesia, by action of its Executive, Legislative and Judicial branches, would officially recognize and pay any award.

No claimant --- not even a claimant such as Sea Oil, which has for many years sought arbitration --- could consent to such terms, since acceptance would be essentially tantamount to abandoning its claim.

We were concerned and disappointed that our Department of State agreed to release the funds appropriated by the Congress for continued U.S. aid to Indonesia on the basis of such an offer of so-called arbitration. We regret we had no opportunity, before the Department acted, to present our views as to why the offer is grossly unfair and unreasonable.

The Department's decision, we believe, erroneously relied on the Hickenlooper Amendment --- which had not been invoked --- even though Hickenlooper establishes a period of six months during which the debtor country can offer arbitration, that period having expired some two decades ago. In addition, of course, the Hickenlooper Amendment obviously envisions a fair offer of arbitration and does not excuse the debtor country merely because its offer is labeled "arbitration."

At this hour we have been out-maneuvered and out-financed by a wealthy government, enriched by U.S. aid funds, that will go to any length and expense to defeat the Sea Oil claim without having advanced a single supportable reason for failure to pay.

Indonesia has never disputed, and does not now dispute, that it took the property of Sea Oil without any payment to the owners.

The Senate Committee on Appropriations, supported by the House Committee on Appropriations, had taken the position that it is time to settle this claim.

The action of the Department of State again placed Indonesia back in the driver's seat, with no incentive to settle the claim, since it captured its U.S. aid money as reward for a specious offer of arbitration. All leverage gained by the action of the Congress has now evaporated.

We asked the U.S. attorney representing Indonesia for the opportunity of presenting the case of Sea Oil to Indonesia. We asked that the Government of Indonesia act as its own "arbitrator," so to speak, for purposes of enforcing its own laws and the international law to which it purports to subscribe.

The domestic laws of Indonesia, as well as international law, require that Sea Oil be compensated.

To paraphrase President Reagan's recent address to the British Parliament:

> We ask only that Indonesia live up to its own Constitution, abide by its own laws, and comply with the international obligations it has undertaken.

We have not received any response to this plea. We have not received an answer to our suggestion of a meeting with Indonesia's U.S. attorney for the purpose of discussing such a plan of action, a plan which would avoid the heavy expenses of arbitration which Sea Oil can ill afford.

As we advised the U.S. attorney for Indonesia on April 27, 1982, it is still our opinion that (1) the matter may be settled most expeditiously and inexpensively by straight-forward negotiation; (2) the issue is plain, i.e., Indonesia took the property of Sea Oil, it should pay for the property; and (3) Sea Oil will continue its efforts to settle its claim by all legitimate means, including fair arbitration with a guarantee of payment of any award to Sea Oil, since we believe the claim to be just and honorable.

Again, let me express continued appreciation for your interest and consideration.

Very truly yours,

Donald S. Dawson

## LETTER FROM JOHN T. McCARTHY

May 20, 1982

General Donald Dawson
Dawson & Riddell
Suite 723
Washington Building
Washington, D. C. 20005

Dear General Dawson:

As I believe you know, the State Department and the Interagency Expropriation Group have been monitoring the progress of Sea Oil and General's claim against the Government of Indonesia for some time. While we have taken no position on the merits of this case, we have worked with both sides to facilitate an amicable settlement of this longstanding claim. Our objective remains one of encouraging the two parties involved to seek fair and effective means of resolving this case, whether by negotiations, arbitration, or other means. The U.S. Embassy in Indonesia has also sought to play a constructive role in encouraging and arranging meetings between the parties and in collecting information on their respective substantive positions.

On February 8, the Government of Indonesia, through its legal representatives made an offer to your client to submit this case for resolution to binding, third-party arbitration. Through subsequent correspondence between you and the counsel for the Government of Indonesia, certain questions which you raised concerning the proposed arbitration appeared to have been answered. You have not, however, responded to the substance of the Indonesia proposal.

The offer of arbitration seems to us to be a significant step forward in the development of this case. Moreover, the Department's Legal Adviser has determined this offer to be an appropriate step within the meaning of the Hickenlooper Amendment and related statues. We assume that you and officials of Sea Oil and General are giving this offer close and careful attention. We would appreciate knowing, at your convenience, your reaction to it.

We all desire an early and amicable resolution to the dispute between Sea Oil and General and the Indonesian Government and hope this new approach proves successful.

Sincerely,

John T. McCarthy
Chairman, Interagency
Staff Coordinating Group
on Expropriation

DAWSON, RIDDELL, FOX, HOLROYD & JACKSON, P. C.
ATTORNEYS AT LAW
SUITE 723
WASHINGTON BUILDING
WASHINGTON, D. C. 20005

May 6, 1982

The Honorable Daniel Inouye
105 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Inouye:

In order to maintain the continuity of the record in the Sea Oil & General Corporation (Sea Oil) matter, I have written Senator Kasten and Representative Clarence Long under date of April 28 to advise that Sea Oil will continue its efforts to settle its claim against Indonesia by all legitimate means, for Sea Oil believes the claim to be just and honorable.

Sea Oil has endeavored for many years to arbitrate the claim and has met with continual rejection by Indonesia.

Then, just recently, the action of your Committee signalled that the Congress means business. As a result, Indonesia was forced to do that which it ought to have done all along, i.e., it offered to arbitrate.

But this offer was a Trojan Horse constructed by the U.S. lawyer which Indonesia retained. Without consulting Sea Oil, but after full consultation by counsel with the U.S. State Department, Indonesia offered arbitration on its own rigid terms: Take them or leave them.

Those terms were a single arbitrator which Indonesia, by counsel, selected and pre-contacted; irrelevant issues of Indonesia's choice which would bind the arbitrator; a tribunal which lacks jurisdiction and which, by Indonesia's terms, could extinguish the Sea Oil claim forever on jurisdictional grounds; and location of the tribunal at the place of Indonesia's choice.

No claimant --- not even a claimant which has for many years sought arbitration --- could consent to such one-sided terms, since acceptance would be almost tantamount to abandoning the claim.

Yet the U.S. State Department approved Indonesia's terms, contrary to the plain provisions of the Hickenlooper amendment. Thereupon U.S. aid funds were released to Indonesia, and hence Indonesia is no longer under the pressure of the Congress to be honorable.

In a sense Sea Oil won a victory, since Indonesia at long last purported to offer arbitration. But the victory was a pyrrhic one.

We have been out-maneuvered and out-financed by a wealthy government, enriched by U.S. aid funds, that will go to any length and any expense to defeat the Sea Oil claim without having advanced a single supportable reason for failure to pay.

I do not know where Sea Oil can raise the funds to cover arbitration. The corporate treasury is drained of what little resources it had after 25 years of fighting and of debt payments.

Note the irony that, thanks to the Congress, we have reached the point where we can see a glimmer of hope at the end of the tunnel, yet we do not have the strength to go forward.

There must be some way, and I have faith that we shall find it.

Sincerely yours,

Donald S. Dawson

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United States Senate
ROOM 105, RUSSELL SENATE BUILDING
WASHINGTON, D.C. 20510
(202) 224-3934

May 18, 1982

The Honorable Alexander Haig
Secretary
Department of State
Washington, D.C.

Dear Mr. Secretary:

I am writing in further reference to the claims by Sea Oil and General Corporation against the Indonesian Government for the expropriation of company land in 1958.

Enclosed is a letter from Donald Dawson, concerning his latest attempts to secure compensation for his company's losses. Within applicable rules and regulations, I would appreciate your comments on the issues raised by Mr. Dawson. Of particular interest are his complaints about the terms by which Indonesia has agreed to arbitrate the case, and what our Government is currently doing to remedy the situation.

Thank you for your timely assistance in this matter.

Aloha,

DANIEL K. INOUYE
United States Senator

# LETTER FROM POWELL A. MOORE

DEPARTMENT OF STATE
Washington, D.C. 20520

June 10, 1982

Dear Senator Inouye:

This is in response to your letter of May 18 forwarding correspondence from Donald Dawson, attorney for the Sea Oil and General Company (Sea Oil). Sea Oil expresses dissatisfaction with the Government of Indonesia's offer to arbitrate its long-standing expropriation claim. You have requested our comments on Mr. Dawson's assertions.

On February 28, after an extensive review of this complex and long-standing claim, counsel for Indonesia, White and Case, offered to submit the claim to binding, impartial arbitration (Tab A). At the request of White and Case, the Office of the Legal Adviser reviewed the proposal of arbitration and determined that it constituted an appropriate step within the meaning of the Hickenlooper Amendment and related statutes.

On March 5, Sea Oil, through its attorney, responded to the offer of arbitration by raising certain questions and objections (Tab B). White and Case responded to these points (Tab C) and to subsequent objections raised on behalf of Sea Oil (Tabs D and E). On March 24, Senator Kasten, who had opposed the expenditure of aid funds to Indonesia pending progress towards resolution of the claim, informed the Department that his Committee's concerns had been satisfied (Tab F). The Interagency Group on Expropriation has recently written to Mr. Dawson concerning the outstanding offer of arbitration (Tab G).

Although Sea Oil has not explicitly rejected the offer of arbitration, one can only conclude that the Company does not intend to take this opportunity to resolve its claim. Mr. Dawson's criticisms of the Indonesian proposal are discussed thoroughly in the attached correspondence and have been answered to the extent that they are relevant. I have the following comments on the specific points raised in his letter to you of May 6.

--Indonesia did not propose a single arbitrator of its choice. It proposed two potential arbitrators; both recognized experts, well and favorably known among the international law community, and requested that Sea Oil choose between the two. The arbitrators were "precontacted" only to determine whether they would be available to serve. Sea Oil has not questioned the qualifications of either arbitrator, nor proposed arbitrators of its own choosing for consideration by Indonesia.

--It is unclear what is meant by the phrase "irrelevant issues of Indonesia's choice which would bind the arbitrator". The issue to be arbitrated as proposed by Indonesia is:

> [W]hether, and if so, to what extent, by virtue of any act of expropriation occurring on or after January 1, 1958 in respect of plantation properties then owned or leased by Sea Oil's subsidiary

> N.V. Baud designated Toge and Cikasunga (known collective as Bolang), Jatinangor, Pamegatan and Carenang, Indonesia is liable in damages for breach of any obligation under international law owed to a United States national (or United States nationals) who has (or have) continuously owned the claim for said breach from the date such claim arose to the present.

The issue as proposed appears to state the matter in dispute between the parties quite clearly and comprehensively. In his letters of March 5 and March 23, Mr. Dawson has objected to the inclusion in the proposed issue of a requirement that U.S. ownership of the claim be demonstrated. However, Sea Oil has presented itself to the Congress, and the Department of State as a U.S.-owned company. On this basis, it has sought to generate political pressure, including efforts to terminate assistance to Indonesia, in order to force Indonesia to settle its claim. All actions taken by both the Department and Committees of Congress have been grounded on Sea Oil's assertion of U.S. nationality.

On the other hand, during its investigation of the claim, counsel for Indonesia have developed a substantial body of evidence that the claim is not and has never been owned by a U.S. citizen. It seems to us that Indonesia is entitled to require Sea Oil to prove its claimed nationality.

--Mr. Dawson's reference to a "tribunal which lacks jurisdiction and which could extinguish the Sea Oil claim forever on jurisdictional grounds" is simply wrong. As proposed by Indonesia, the arbitrator would have jurisdiction to render a binding and enforceable award if Sea Oil were to prevail on the merits of its claim. The reference to "jurisdictional grounds" may refer to Sea Oil's unwillingness to place the disputed issue of its claimed U.S. nationality before the arbitrator.

--Mr. Dawson refers to the location of the arbitration as a factor making Indonesia's offer unfair. Neither in this letter nor in prior correspondence has he explained why London is an inappropriate location or proposed an alternative location.

--Mr. Dawson states that Sea Oil treasury is drained and that it lacks the funds to finance arbitration. As noted in p. 10 of the White and Case letter of March 15 (Tab C), Sea Oil has received in excess of $1,863,000.00 in judgment awards since 1975, the year in which it originally proposed arbitration. Since the company is inactive and has no other function except the pursuit of this claim, it is unclear how the treasury would have been drained.

The Department of State was pleased that, after so many years of delay on Indonesia's part, it finally acceded to the repeated urging of the Department, Sea Oil, and interested members of Congress and offered to submit this claim to arbitration. We have reviewed the offer carefully and find it to be equitable and reasonable. We are disappointed that Sea Oil has chosen not to accept the offer or to offer any alternatives to those aspects of the proposal to which it may object.

The conclusion that comes quickest to mind from this course of conduct is that Sea Oil is unwilling to test its claim before an impartial tribunal and prefers instead to force Indonesia to meet its demands through political pressure and threats to Indonesia's aid program.

In our view, Indonesia has met its obligations under international law and applicable law of the United States by its offer of arbitration. Under present circumstances, the Department intends to take no further action through diplomatic channels with respect to the claim. We continue to hope that Sea Oil will avail itself of this opportunity to resolve this long-standing dispute.

Sincerely,

/s/

Powell A. Moore
Assistant Secretary for
Congressional Relations

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, JUNE 10, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met, at 1:30 p.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Bob W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and Rudman.

## DEPARTMENT OF THE TREASURY

### TRADE AND INVESTMENT POLICY

### STATEMENT OF ROBERT A. CORNELL, DEPUTY ASSISTANT SECRETARY FOR TRADE AND INVESTMENT POLICY, DEPARTMENT OF THE TREASURY

### U.S. EXPORT FINANCING POLICY

Senator KASTEN. The subcommittee will come to order.

This afternoon we are going to have an extensive hearing, one which I hope will be worthwhile and informative, on U.S. export financing policy. This hearing has been suggested in one form or another by nearly all the members of the subcommittee, and I should say also a number of Senators who are not on the subcommittee.

It comes at a time when the primary institutional arm of the U.S. export financing, the Eximbank is being subjected to the most severe criticism in its history. A week doesn't go by without this subcommittee hearing from two or three exporters all complaining about either the policies or the lack of adequate funding of the Export-Import Bank.

I think it is important to recognize that a large number of these problems are caused by the prime rate of interest and by the spread we see as the interest rates go higher and higher and by the economic circumstances facing the United States and a number of countries we are competing with.

I know this is also true of members of the subcommittee who have indicated to me that they have received similar complaints.

I might quickly add these complaints do not all come from the three large exporters that we are going to hear from today, but from exporters, large and small, across the Nation, particularly some of the subcontractors who are also in severe economic difficulties.

### INTRODUCTION OF WITNESSES

So our witnesses for today's hearing include representatives of the Departments of Treasury and Commerce, the U.S. Trade Representative's Office, Boeing Co., witnesses representing the heads of Westinghouse Electric and General Electric.

We also have Mr. Raymond Garcia, executive director of a new organization called Coalition for Employment Through Exports.

Our final witness, although I think it might be fair to say he might be questioned indirectly throughout the hearing, will be Mr. Bill Draper, President and Chairman of the Eximbank, whom I have had the opportunity to work with and whom I know is concerned, as all of us are, about the problems of increasing exports.

### HEARING PROCEDURE

The format will generally be as follows:

First we will hear from witnesses representing Treasury, Commerce, and the U.S. Trade Representative individually and question them as a panel.

We will then hear from Boeing, Westinghouse, and General Electric individually and question them as a panel.

That will be followed by a brief statement by Mr. Garcia with the final witness this afternoon being Mr. Bill Draper.

Had we been able to schedule more time in the subcommittee and been able to do this at a less busy period of time I would have asked some important congressional leaders to testify today. Most importantly, Senator Heinz, Senator Garn, and Senator Jackson have all indicated a very keen interest in this group of issues. Unfortunately, we were unable to do so.

### CORRESPONDENCE

I do have a letter written by Senator Heinz to the President which I would like to be inserted in the record at this time. While the letter goes into some specific concerns of Senator Heinz vis-a-vis Pennsylvania, it nevertheless points out many of the concerns we all have with respect to the operation of the Eximbank.

[The letter follows:]

## LETTER FROM HON. JOHN HEINZ

U.S. SENATOR FROM PENNSYLVANIA

June 8, 1982

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As you know, I am an enthusiastic supporter of the Export-Import Bank. It is beneficial for American business, for American labor, for our balance of payments, and has a positive real impact on the Federal budget. My duties as Chairman of the Subcommittee on International Finance and Monetary Policy keep me reasonably well-informed on the Bank's activities and the nature of its programs. I was, therefore, confused by the response on your behalf by Kenneth Duberstein, to my letter to you of December 18, 1981. His reply demonstrated not only a misunderstanding of the Bank's operations and its statutory mandate but also clear misinformation.

Mr. Duberstein refers to strong Administration support for the Bank as "an important instrument of overall U.S. trade policy" and that "pursuant to its legislative mandate, Eximbank will continue to maintain an aggressive position in financing U.S. exports." Yet, it is precisely that strong support for the Bank that I and others in the Congress are trying to generate. We find that support woefully lacking when in the midst of an export credit war budget recommendations come to the Congress that if adopted would result in unilateral disarmament. That support also appears to be lacking when high-ranking officials in your administration make statements about the need to eliminate the Bank and its export support activities.

Moreover, far from continuing an aggressive position, the issue is over whether and when the Bank is going to begin such a policy. Mr. Duberstein admitted that four of the six cases that I submitted to you as examples of inadequate support from the Eximbank were legitimate, one (the Harris Corporation case) due to clearly uncompetitive terms and three (the Cross Company, General Electric-Brazil, and aircraft cases) due to insufficient budget authority for the Bank. Of the two remaining cases, the Boeing-Vertol sale finally was won by the U.S., but only after intensive pressure from the Congress caused the Bank to revise its policies and assume the aggressive posture that was necessary and which is required by law. The last case, involving Dresser Industries, Mr. Duberstein was unable to comment on.

The instances of business lost due to an Eximbank that is either unwilling or unable to offer competitive financing for U.S. exports are too numerous to relate in detail, but apparently more examples are necessary to establish the point.

--Last year Frederick Electronics lost a sale for telex switching equipment to the Philippines, valued at $2,300,000, when Swiss competitors offered official financing of 85% of their product at a rate of 9.5% interest over ten years. Eximbank's idea of an aggressive stance was to modify its initially uncompetitive offer of 85% direct credit at 13% to an offer of 65% direct credit at 14% interest for five years.

--Boeing, whose products involve the direct participation of three thousand subcontractors, lost a sale of six 757 aircraft, with a total value of $226,000,000, to French competition when the Bank indicated that it would only offer to finance 42.5% of the sale at 12% (plus a 2% up front fee) over ten years. The competition won the jobs for their own company by offering to finance 80% of the sale at 9.25% interest.

--In another case last year Boeing lost a sale of two new generation aircraft to Jamaica when the French and friends offered attractive financing for their Airbus. Boeing's request for competitive financing is still pending in the Eximbank, which apparently has not yet caught the spirit of the Caribbean Basin Initiative, nor how such support also supports American industry. That sale was worth $127,000,000.

--Combustion Engineering lost a Mexican deal worth $138,977,000 because of uncompetitive financing. The Japanese are now building the fossil power plant because they did not follow Eximbank's pricing leadership and offered 100% financing at 8.5% interest for 12 years. I wonder how the thousands of Americans who might otherwise have had a job from the sale would evaluate how important and effective a tool for U.S. trade policy the administration views the Eximbank, considering that the Bank sought to defend American commerce with an offer to support only 42.5% of the sale at 12% (plus a 2% up front fee)?

--Dresser Industries decided to fill a $13 million order through its subsidiary in France because Eximbank was unable or unwilling to offer competitive financing. Rather than exporting a drilling rig, this aggressive policy of the Eximbank helped to export American jobs.

--Dresser lost another sale of $14 million worth of motorgraders. Dresser was unable to obtain Eximbank support, and the commercial credit terms were nearly double the 9 1/2% rate available to the Japanese exporters.

There are many more examples to cite, but the point is that the Bank, for all of its claims, has yet to begin to support aggressively U.S. exports. Further, the record of the Administration with regard to the Bank has been exactly the opposite of what your intentions, as indicated by Mr. Duberstein's letter, would appear to be. Without adequate program authority (which does not require a nickel of appropriation) Eximbank will not be able to do its job, and export related industries -- which include our aerospace, electronics, machine-tool, and other key security-related industries -- will suffer, we will lose more jobs, and America's share of world trade will continue to erode.

This is particularly distressing, considering that our export sector could be one of the most powerful vehicles for job creation in our economy. Between the years 1977 and 1980 jobs related to the export of manufactured products from the U.S. rose by 47%, for a total of 1.5 million new jobs. This figure accounted for nearly 30% of the total increase in jobs for the entire economy during that period of time. At the end of that period one out of every seven workers in America, engaged in manufacturing, produced goods for export. In 1977 that ratio was one out of every ten.

In my own state of Pennsylvania 59% of the net growth in private sector jobs was export-related. That figure was 85% for New York and 33% for Connecticut, all of which are states that have otherwise been suffering economically.

I renew my plea to you to reconsider your Administration's policies toward the Eximbank. I pledge my continued efforts to ensure that American exporters received the help that they need against the cutthroat practices of our trade competitors.

These are the concerns that I and my colleagues hope to address by the introduction of the Export-Import Bank Restructuring Act. I have sought an awareness of the vital role that Eximbank must play, in defending U.S. exporters and American jobs, on the part of the nominees to the Bank's Board of Directors. Until I am convinced that these nominees are willing, and will be allowed, to pursue the Bank's statutory mandate to aggressively defend American exports and offer truly competitive financing, it will be difficult for me to support their confirmation by the Senate.

I do appreciate Mr. Duberstein's detailed response, even though I am dissappointed by its contents. As my earlier correspondence on this issue should have made clear I am firm in my intent that the issues associated with the Eximbank should be properly addressed. I plan to again raise these issues with the Administration during the course of comprehensive hearings that I am planning to hold this summer in the International Finance and Monetary Policy Subcommittee on the purpose and policies of the Export-Import Bank.

I look forward to your Administration's support on this issue so vital to our economic well-being.

Sincerely,

John Heinz

John Heinz

## INTRODUCTION OF WITNESSES

Senator KASTEN. As will come out in the questioning, Senator Heinz, Senator Garn, Senator Jackson, and others have introduced major legislation entitled the "Export-Import Bank Reconstruction Act of 1982."

I am in the process of studying that legislation and with a couple of changes, especially the provision dealing with budgetary treatment, I think a number of the subcommittee members will possibly end up being in strong support of this legislation.

So, we will begin today's hearings by asking Robert A. Cornell, the Department of the Treasury witness; Stephen Strauss, from the Department of Commerce; and Mr. William Krist of the U.S. Trade Representative Office to come forward.

Mr. Cornell, you may proceed with your testimony.

I hope all the witnesses will keep in mind that their entire statements will be included in the record, together with whatever additional material they may wish to include, and therefore it is my hope, Mr. Cornell, and others, that you can in general summarize your statements so that there is an opportunity for questions.

Senator Rudman, do you have an opening remark?

Senator RUDMAN. No, Mr. Chairman.

Senator KASTEN. This is a difficult afternoon in that we are just finishing the supplemental appropriations bill and therefore other things are going on. So you may see members coming in and going out.

Robert A. Cornell of the Treasury. Mr. Cornell.

## EXPORT CREDIT ARRANGEMENTS WITH EUROPEAN COMMUNITY

Mr. CORNELL. Thank you very much, Mr. Chairman. I will indeed attempt to heed your urging——

Senator KASTEN. I will ask you to put the microphone closer. This is a difficult room to hear in unless you are close to the mike.

Mr. CORNELL. I will attempt to summarize the written testimony which I have submitted for the record.

As I am sure anyone who is involved in the export credit business knows, the U.S. Government is indeed approaching a crossroads in our efforts to curb export credit subsidies. On the one hand we are waiting for the European Community to decide whether or not to accept the recently negotiated improvements in the export credit arrangement. At the same time we are faced with a new export credit challenge in our own domestic market in the following form. The Canadians and the French have offered heavily subsidized export credits for the purchase of subway cars by the New York Metropolitan Transit Authority. Finally, the prospect of huge deficits in the Federal budget is a central concern which overlays all of these issues. Thus, we must find a way to formulate a program which gives the Eximbank sufficient budgetary authority to meet specific challenges from foreign official competitors, but to do so within existing budgetary constraints.

### ADMINISTRATION EXPORT FINANCING POLICY

The foundation of the administration's export financing policy rests on really three basic points. First, we oppose official export credit subsidies as a matter of principle. Second, negotiations to reduce these subsidies have a very high priority in this administration. Third, we will target Eximbank's resources to where the competitive need is greatest.

Now a stringent budget policy means increased reliance on the free market and therefore a reduction in subsidies. There are many arguments which I am sure you have heard in past testimony by the Treasury to make the point that subsidies represent a highly inefficient way of attempting to solve the problems that we face.

At the same time, in making these arguments I wish to emphasize what is certainly the U.S. Treasury's view—and I think is a widespread view within the administration—that an efficient and prudently used Eximbank assists U.S. exporters against predatory financing practices of other governments. The subsidized export credits of other OECD countries have been expanding steadily in recent years. We know that only too well. Official credits now support a very high percentage of their trade in manufactures, particularly to the developing country markets. Thus we need to use Eximbank financing to maintain the pressure on the other OECD countries to eliminate the subsidy element in export credits.

### ADMINISTRATION BUDGET REQUEST

The administration has requested a level of budgetary resources for the Eximbank which will be adequate to fulfill its mission. The budget requests of the administration are lower than authorized in recent years, but we feel the Bank will have sufficient authority and program flexibility to meet specific challenges, as I said, from foreign official competitors.

In the past year the administration has implemented a number of policies designed to conserve the Bank's resources without undermining its ability to compete. I will skip over those specifics as they are contained in the written testimony.

Concurrent with administration actions, I might add the Eximbank itself has introduced a number of policies for more efficient use of its own financial resources. I believe those will be covered in Mr. Draper's testimony later on.

### INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS

The international arrangement on export credits, which is negotiated under the auspices of the OECD, has obviously been the centerpiece of the U.S. Government's attack on export credit subsidies; that is, to maintain the competitiveness of U.S. exports while minimizing the drain on scarce budgetary resources. In May of this year the chairman of the OECD group attempted to break an impasse between the European Community and other arrangement participants, which included the United States by the way, by suggesting a compromise which combined modest increases in interest rates with a reclassification of the borrowing countries. The compromise, if accepted, would offer solid gains for the United States.

The new classification system reclassifies the Soviet Union as a relatively rich country and also graduates a number of newly industrialized countries into the intermediate category. These include countries like Mexico, Brazil, Korea, Taiwan, and Nigeria, which account for 75 percent of Eximbank's nonaircraft lending over the past 4 years.

## INTEREST RATES

The compromise also provides an increase in minimum interest rates. If evaluated in terms of Eximbank business, the proposed combination of country reclassification and the increase in interest rates for relatively rich and intermediate countries would raise the weighted average interest rate on foreign official export credits to 11.6 percent, an increase of 1.4 percent over the present minimum rates. Given that other countries add fees of between one-half percent and 1 full percentage point to the arrangement's minimum rates, the minimum rate of 11.6 is really between 12.1 and 12.6. Eximbank's financing is currently offered at a standard rate of 12 percent, plus a 2-percent, up-front fee, which results in an effective annual rate of 12½ percent. Eximbank rates would be competitive with foreign export credits.

I would add that the compromise builds on the significant improvements in the arrangement which were negotiated in November 1981. At that time all matrix interest rates were increased, raising the weighted average interest rate by 2.3 percent to 10.2 percent. If the chairman's compromise is accepted, we will have effectively raised the weighted average interest rate from 7.9 percent to 11.6 percent, an increase of 370 basis points in the last 6 months.

While the compromise falls short of our initial objectives, we believe it represents sufficient progress and have indicated our acceptance. Almost all delegations did likewise. Unfortunately, the European Community requested a postponement of the deadline for reply from May 25 until June 15. That is next Tuesday. Although we had some misgivings, we notified the OECD Secretariat of our acquiescence in the postponement to give the EC ministers some extra time to accept the chairman's compromise.

Since then there has been a lot of behind-the-scenes to-ing and fro-ing. In this process, the United States has made very plain to all the other participants, most particularly to the European Community and its member states, that the June 15 date, next Tuesday, is our absolute bottom line for temporizing any longer on this issue. In fact, we not only want them to give us an up-or-down decison on the chairman's compromise proposal, but we have also said that we are unprepared to return to the table before then to renegotiate any kind of new deal.

The proposed MTA deal, in which the Canadians and French are reportedly offering terms in derogation of the present provisions of the arrangement, further complicates the delicate process of reaching agreement on the chairman's compromise. Pressing ahead with the steps required by law, the administration has been urging the French and Canadian Governments to revise their offers so as at least to conform with the arrangement minima. If these efforts fail, we will have to assess what remedies are available and how best to apply them. It is our hope that our trading partners will see properly the implications of this case and view it as a clear example, as we do, of the need to improve the arrangement on export credits.

### CONTINGENT PLANNING ON MTA PROBLEM

It would be unwise for the administration to move ahead, given the uncertainty in the export credit area, without recognizing the possibility that the arrangement compromise will not come to pass. There is a possibility that we will be unsuccessful in negotiating a reasonable solution to the MTA problem. Therefore, we are starting to do some contingency planning. If there is no agreement to the proposed arrangement amendments, and if we fail to reach a satisfactory understanding in the MTA case, the administration recognizes it will be forced to reassess its export credit policy.

Such a review by definition will have to be comprehensive, requiring us to evaluate all of the international and domestic, legal, political, and economic tools at our disposal. The policy reevaluation will look carefully at all of the following array of options.

First, we will review the adequacy and type of funding available to the Export-Import Bank.

Second, we will reassess the war chest bills currently on the Hill.

Third, we will reconsider self-initiating cases under section 301 of the Trade Act of 1974.

Fourth, we will determine whether and under what circumstances export credit subsidies are counteravailable under domestic and international law.

Fifth, we will analyze the consequences of initiating trade complaints under the GATT or Subsidies Code dispute settlement provisions.

Sixth, we will consider instituting a full multilateral review in the GATT on the applicability of Subsidies Code discipline to export credit subsidies.

### CREDIT EXPORT SUBSIDIES CONTINUE

The administration does not seek confrontation with our major trading partners, but we do indeed find it absurd, in a period when we are struggling to reduce budget deficits and inflation, that governments continue to indulge in wasteful, inefficient credit export subsidies. It is essential that these predatory practices cease, or we will soon find ourselves spiraling downward into mutually destructive trade competition. There is no such thing as a cozy trade war. It is either a big one or it doesn't exist at all.

Perhaps I have strayed from the thrust of this budget hearing by highlighting the export credit arrangement, the MTA case, and U.S. trade policy in general. But I thought it would be useful for the subcommittee to understand the state of play domestically and internationally, which is very critical and should begin to resolve itself one way or the other within a few days, on issues which could have serious impact on the Eximbank's operations.

I will be pleased later to answer, as best I can, any questions that the subcommittee may have. Thank you very much.

[The statement of Mr. Robert A. Cornell is as follows:]

# PREPARED STATEMENT OF ROBERT A. CORNELL

DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TRADE AND INVESTMENT POLICY

DEPARTMENT OF THE TREASURY

## U.S. Export Financing Policy

Thank you, Mr. Chairman. I appreciate the opportunity to discuss the export financing policy of the United States, in particular the special role of the Export-Import Bank.

As many of you know, we are approaching a crossroads in our efforts to curb export credit subsidies. On one hand, we are waiting for the European Community to decide whether or not to accept the recently negotiated improvements in the Export Credit Arrangement. At the same time, we are faced with a new export credit challenge in our domestic market -- the Canadians and the French have offered heavily subsidized export credits for the purchase of subway cars by the New York State Metropolitan Transit Authority. Finally, the prospect of huge deficits in the federal budget is a central concern which overlays all issues. Thus, we must formulate a program which gives the Eximbank sufficient budgetary authority to meet specific challenges from foreign official competitors within existing budgetary constraints.

The foundation of the Administration's export financing policy rests on three basic points:

a) We oppose official export credit subsidies;

b) Negotiations to reduce these subsidies have a high priority;

c) We will target Eximbank's resources where the competitive need is greatest.

A stringent budget policy means increased reliance on the free market, with a reduction or elimination of subsidies. At best, export credit subsidies are inefficient and represent a tool of policy to be avoided if possible. Export subsidies transfer resources from individual and corporate domestic taxpayers to importing countries and to corporations engaged in exports. Financing Eximbank's operations also requires increased federal demands on capital markets, potentially preempting financial resources which would have been lent to the private sector. Indeed, export credit subsidies distort prices and thus the decision of the buyer. Government-imposed distortions like this undermine the principles of comparative advantage in international trade -- such practices should be strongly opposed by the U.S. Government.

With these considerations in mind, I wish to emphasize that an efficient and prudently used Eximbank assists U.S. exporters against the predatory financing practices of other governments. The subsidized export credits of other OECD countries have been expanding steadily in recent years. Official credits now support a high percentage of their trade in manufactures, particularly to developing country markets. Thus, we need to use Eximbank financing to maintain the pressure on the other OECD countries to eliminate the subsidy element in export credits.

The Administration has requested a level of budgetary resources for the Eximbank which will be adequate to fulfill its mission. The budgetary requests of the Administration are lower than those authorized in recent years, but we feel that the Bank will have sufficient budgetary authority and program flexibility to meet specific challenges from foreign official competitors. In the past year, the Administration has implemented a number of policies designed to conserve the Bank's resources without undermining its ability to compete:

(1) We have been intensively negotiating improvements in the International Arrangement on Export Credits in order to curb foreign export credit subsidies.

(2) The understanding on commercial jet aircraft has halved the allowable direct credit support, thus freeing up substantial amounts of the Eximbank's lending authority for other purposes.

(3) A recent understanding with the Ministry of Finance of Japan now enables the U.S. Export-Import Bank to guarantee commercial bank credits in yen at the same rate offered by the Export-Import Bank of Japan. In addition, the Bank may guarantee loans in Swiss francs, DM, and other SDR currencies.

Concurrent with Administration actions, the Bank itself has introduced a number of policies for more efficient use of its financial resources, including the following:

(1) The Bank generally does not support sales to developed countries and has limited credits for aircraft to guarantees, except in the case of wide-body medium-range and new generation aircraft.

(2) General purpose lines of credit have been discontinued for the most part, since we could never determine whether they added to U.S. exports.

(3) The Bank has developed a targeted approach to provide the minimum financing needed for a U.S. supplier to compete.

The International Arrangement on Export Credits, negotiated under the auspices of the OECD, has obviously been the centerpiece of the U.S. Government's attack on export credit subsidies, i.e., to maintain the competitiveness of U.S. exports while minimizing the drain on scarce budgetary resources. In May of this year, the Chairman of the OECD group attempted to break an impasse between the European Community and other Arrangement participants (including the United States) by suggesting a compromise which combined modest increases in interest rates and reclassification of borrowing countries. The compromise, if accepted, would offer solid gains for the United States.

The new classification system reclassifies the Soviet Union as a relatively rich country and also graduates a number of newly industrialized countries into the intermediate category. The latter group, which includes Mexico, Brazil, Korea, Taiwan, and Nigeria, accounts for 75 percent of the Eximbank non-aircraft lending over the past four years.

The compromise also provides an increase in minimum interest rates. If evaluated in terms of Eximbank business, the proposed combination of country reclassification and the increase in interest rates for relatively rich and intermediate countries would raise the weighted average interest rate on foreign official export credits to 11.6 percent, an increase of 1.4 percent over the present minimum rates. Given that other countries add fees of between 0.5 percent and 1.0 percent to the Arrangement minimum rates, the minimum rate of 11.6 percent is really between 12.1

percent and 12.6 percent. Eximbank financing is currently offered at a standard rate of 12.0 percent plus a 2 percent up-front fee, which results in an effective annual rate of about 12.5 percent. Eximbank interest rates would thus be directly competitive with foreign export credits.

The compromise builds on the significant improvements in the Arrangement which were negotiated in November, 1981. At that time, all matrix interest rates were increased, raising the weighted average interest rate by 2.30 percent to 10.20 percent. If the Chairman's compromise is accepted, we will have effectively raised the weighted average interest rate from 7.9 percent to 11.6 percent, an increase of 3.70 percent in the last six months.

While the compromise falls short of our initial objectives, we believe it represents sufficient progress and have indicated our acceptance. Almost all delegations did likewise. Unfortunately, the European Community requested a postponement of the deadline for reply from May 25 until June 15. Although we had some misgivings, we notified the OECD Secretariat of our acquiescence in the postponement to give the EC ministers some extra time to accept the Chairman's compromise.

The proposed MTA deal, in which the Canadians and French are reportedly offering terms which are in derogation of the current provisions of the Arrangement, further complicates the delicate process of reaching general agreement on the Chairman's compromise. Pressing ahead with the steps required by law, the Administration has also been urging the French and Canadian governments to revise their offers so as at least to conform with the Arrangement minima. If these efforts fail, we will have to assess what remedies are available and how best to apply them. It is our hope that our trading partners will see properly the implications of this case and view it as a clear example of the need to improve the Arrangement on Export Credits.

If there is no agreement to the proposed Arrangement amendments and we fail to reach a satisfactory understanding in the MTA case, the Administration will be forced to reassess its export credit policy. Such a review by definition will have to be comprehensive, requiring us to evaluate all of the international and domestic, legal, political, and economic tools at our disposal. The policy reevaluation will look at the following array of options:

(1) We will review the adequacy and type of funding for the Export-Import Bank.

(2) We will reassess the so-called war chest bills currently on the Hill.

(3) We will consider self-initiating cases under Section 301 of the Trade Act of 1974.

(4) We will determine whether and under what circumstances export credit subsidies are countervailable under domestic and international law.

(5) We will analyze the consequences of initiating trade complaints under the GATT or Subsidies Code dispute settlement provisions.

(6) We will consider instituting a full multilateral review in the GATT on the applicability of Subsidies Code discipline to export credit subsidies.

The Administration does not seek confrontation with our major trading partners. But we find it absurd, in a period when we are all struggling to reduce budget deficits and inflation, that governments continue to indulge in wasteful export credit subsidies. It is essential that these trade distortions and predatory trade practices cease, or we could soon find ourselves spiraling downward into mutually destructive trade competition.

Perhaps I have strayed from the thrust of this budget hearing by highlighting the OECD Export Credit Arrangement, the MTA case, and U.S. trade policy in this testimony. But I thought it would be useful for the Subcommittee to understand the state of play domestically and internationally on issues which could have serious impact on Eximbank operations. I would be pleased to answer as best I can any questions the Subcommittee may have.

# DEPARTMENT OF COMMERCE

## TRADE AND INFORMATION ANALYSIS

### STATEMENT OF STEPHEN B. STRAUSS, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR TRADE AND INFORMATION ANALYSIS

Senator **KASTEN**. Mr. Stephen Strauss, Deputy Assistant Secretary for Trade Information and Analysis in the Department of Commerce.

### IMPROVEMENT OF U.S. EXPORT TRADE

Mr. **STRAUSS**. Thank you, Mr. Chairman, for the opportunity to submit testimony on the export financing policy of the United States.

With your permission I would like to submit my full testimony for the record and make a brief oral statement.

Senator **KASTEN**. You have my permission.

I will have to remind you, as I did the previous witness, this is a very difficult room. So get as close to the microphone as you can and speak more loudly.

Mr. **STRAUSS**. Thank you.

We at the Department of Commerce are deeply interested in promoting U.S. export trade.

Exports benefit the U.S. economy, providing profits and taxes. Exports account for 18 percent of our goods produced and sold and for one job in eight in manufacturing. Each $1 billion of exports of manufactured products supports the equivalent of 24,000 Americans employed, according to our latest available data. Furthermore, some of our key high-technology industries such as telecommunications systems, civilian nuclear power plants, and aircraft export a large share of their total output.

Furthermore, small- and medium-size businesses where currently 80 percent of new jobs are being created can only export in many cases through initiating or increasing their penetration of export markets.

### EXPORT FINANCING POLICY

With respect to our export financing policy, our objective in the Department of Commerce is to work with our trading partners to eliminate export credit subsidies and have international trade take place in an environment of open international competition based on price and quality of competing goods and on market conditions for export financing.

This is not to say Government-supported credit should be eliminated. In some cases the private sector is unable to provide all the required financing on appropriate terms. It then is appropriate for the Eximbank to supplement private capital. Eximbank financed

U.S. companies are often unable to compete against foreign governments who provide credit subsidies at low market interest rates and long repayment periods.

Eximbank's ability to provide competitive financing and be self-sustaining will depend largely on whether the recent improvements to the arrangement on guidelines on officially supported export credits will be ratified by our OECD partners on June 15. This agreement will do much to increase Eximbank's competitiveness.

As Mr. Cornell has already pointed out, in the major export markets requiring credit support foreign governments will be charging 11.6 percent interest on long-term credits plus fees. Eximbank's 12 percent will become competitive in most cases. The proposed agreement will move foreign interest rates closer; however, a large gap still remains between the new interest rates and market rates.

On June 1 Eximbank's cost of new funds was 13.6 percent. Eximbank's current subsidy is at least 1 percent, the difference between its cost of new money and its interest revenue on new credit. We hope and trust that the OECD governments will ratify the improvements to the credit arrangement on June 15.

The U.S. Government negotiated these improvements in good faith and in a spirit of compromise. They are imperfect, but nevertheless a step in the right direction.

Should our trading partners not see fit to ratify these improvements, then the U.S. Government clearly will need to reexamine its position on export credits, including our position on appropriate Eximbank financing and on the war chest bills and the other points Mr. Cornell described in his oral statement.

## BUSINESS ADVISORY GROUPS

Let me close by describing what we in Commerce are doing with business advisory groups and State governments on the subject of export financing.

Commerce maintains an active program of promoting exports, notably with the small and medium size business community. We have a field network of 47 district offices around the country to assist exporters in penetrating new overseas markets.

Each of these field offices sponsors a private sector district export council. These councils will hold their next national meeting on September 23 with a major agenda item slated to be the problem of cost and availability of export financing to the small business exporter.

A recent national survey of the small business members of the district export councils identified export financing as a primary barrier to financing of small business exports. Our field offices and the district export council work closely with many State government export promotion agencies.

## STATE EXPORT FINANCING

A growing number of State governments have expressed concern about the lack of financing available to the small business exporter and have also expressed interest in exploring with our Department of Commerce field offices the type of export financing mechanism which may be possible at the State level.

Wisconsin, New York, Utah, and Ohio are among the leading States in developing their thinking on the subject of export financing at the State level. The chairman of the Wisconsin Advisory Committee on International Trade has written to us seeking help. We will work with State governments to develop our thinking on this subject in time for the September 23 national district export council meeting.

Commerce also maintains jointly with USTR an active industry consultation program which includes 17 distinct industry sector advisory committees. Through these committees we have sought the views of leading members of the export business community on export financing issues. These views have been taken into account as we have entered into recent negotiations on aircraft financing issues, and in the context of bilateral discussions on a variety of industries.

The President's Export Council is another business advisory group which has identified export financing as a major priority for its work and has given us the benefit of its views.

Mr. Chairman, this concludes my oral testimony. I will be happy to answer any questions you may have later.

[The statement of Mr. Stephen B. Strauss is as follows:]

## PREPARED STATEMENT OF STEPHEN B. STRAUSS

**Deputy Assistant Secretary of Commerce**
**for Trade and Information Analysis**

DEPARTMENT OF COMMERCE

Thank you for the opportunity to submit testimony on the export financing policy of the United States. I am Stephen B. Strauss, Deputy Assistant Secretary of Commerce for Trade and Information Analysis. We at the Department of Commerce are deeply interested in promoting U.S. export trade.

Exports benefit the U.S. economy, providing profits and taxes. Exports account for 18 percent of our goods produced and sold and for one job in eight in manufacturing. Each billion dollars of exports of manufactured products supports the equivalent of 24,000 Americans employed, according to our latest available data. Furthermore, some of our key high technology industries such as telecommunications systems, civilian nuclear power plants, and aircraft export a large share of their total output.

### Export Financing Policy

The Department of Commerce strongly believes that government-supported trade financing should be neutralized as an element of export competition. Our view is that exporters should compete on their intrinsic price, quality, delivery, and similar product merits. Producers that continuously improve their price, quality, and the like should be rewarded by increased export sales.

These incentives are distorted if government credit subsidies alter the buyer's perception of price and quality factors. Such subsidies have nothing to do with intrinsic product merit. To the contrary, they penalize efficient companies, frustrate the proper operation of producer incentives, and pit individual exporters against foreign governments.

Each one percent of interest rate subsidy is equivalent to 5.5 percent of the principal of a loan repaid over 10 years. When foreign governments depress interest rates two or three percent below market levels, our exporters have to overcome the equivalent of a 10-15 percent price disadvantage.

This is not to say that government-supported credit should be eliminated. In some cases the private sector is unable to provide all of the required financing on appropriate terms. The clearest example is in the case of civilian nuclear power plants. For such sales the private sector probably cannot assemble the needed long-term capital because of the long construction and payback period-- approximately 22 years. In such transactions, it is appropriate for Eximbank to supplement private capital.

Eximbank financing also is justified to help meet foreign credit competition. Most OECD governments provide export credit with long repayment periods and below-market interest rates. U.S. companies, unassisted, can finance only on market terms, not subsidized terms. Competitive financing, within Eximbank's budgetary and financial means, is a way of bringing pressure on foreign governments to eliminate their credit subsidy practices.

## Export Credit Arrangement

Eximbank's ability to provide competitive financing and be self-sustaining will depend largely on whether the recent improvements to the Arrangement on Guidelines on Officially Supported Export Credits will be ratified on June 15. You will recall that on May 6-7 representatives of 22 OECD governments agreed ad referendum on the following major improvements to the current Arrangement:

-- To update the classification of country recipients of export credits;

-- To raise interest rates for export credit recipients in the rich and intermediate country categories;

-- To establish a more permanent and automatically-adjusted basis for setting the minimum rate on the Japanese yen; and

-- To refrain for a year from any derogation on repayment term, interest rate, or mixed credits with less than a 20 percent grant element.

The agreement will do much to increase Eximbank's competitiveness. In the major export markets requiring credit support, foreign governments will be charging 11.6 percent interest on long-term credits. Eximbank currently charges 12 percent, a negligible difference in most cases. The new interest rate minimums under the negotiated agreement are as follows:

| | Repayment Term of | | |
|---|---|---|---|
| | 2-5 yrs | 5-8.5 yrs | 8.5-10 yrs |
| Rich Countries | 12.25% | 12.50% | None |
| Intermediate Countries | 11.00 | 11.60 | None |
| Poorer Countries | 10.00 | 10.00 | 10.00% |

The new interest rates, furthermore, will make it possible for export credit to revert largely to the private sector. Traditionally, U.S. banks have financed a major share of U.S. exports. In recent years the market-based interest rates of our commercial banks became uncompetitive vis-a-vis foreign subsidized rates. Demand for Eximbank credit rose correspondingly. The proposed agreement will move foreign interest rates closer to market levels and restore the competitiveness of private bank financing. This is wholly in keeping with our conviction that trade should be based on market forces wherever possible.

The new agreement is not fully satisfactory in all respects. Eximbank has agreed to give up for a year its right to derogate on repayment term. It will not be fully competitive in financing exports to the poorer countries. Finally, a large gap still remains between the new interest rates and market rates. On June 1, for example, Eximbank borrowed at a 13.6 percent cost. Our calculations indicate that Eximbank's current subsidy is equivalent to at least one percent, the difference between its cost of money and its interest revenue on new credits. The subsidy would be greater still if private financing costs are used as the base.

## Options

We hope and trust that the OECD governments will ratify the improvements to the credit Arrangement on June 15. The U.S. Government negotiated these improvements in good faith and in a spirit of compromise. They are imperfect, but nevertheless a step in the right direction.

Should our trading partners not see fit to ratify the improvements, then the U.S. Government clearly must reexamine its position on export credits. Possible changes include, but are not limited to:

-- Reconsideration of the level and type of funding for Eximbank;

-- Reconsideration of the Administration's position on the war chest bills;

-- Continued derogation on repayment term;

-- Engaging in credit practices which the U.S. Government previously has refrained from pursuing;

-- Exercise of our trade rights under the GATT in appropriate cases.

I sincerely hope it will not be necessary to pursue these options. But I wish to make it plain that we are prepared to take these options if we are forced to.

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you may have.

Senator KASTEN. Before you begin your testimony, Mr. Krist, I just want to emphasize that we have gone through lots of discussions back and forth on you and your agency even being before us.

The subcommittee feels very strongly about the invitation to Ambassador Brock to appear today. Last week, not having heard from your office, although we had heard from all the other witnesses, the subcommittee made several telephone calls to confirm your participation. None of those phone calls were returned.

Finally, a call directly to Ambassador Brock's office produced an answer. I talked to him and he said he knew nothing about the hearing or his agency's lack of response to our request.

I think it is important to emphasize that Congress has a legitimate and a necessary responsibility to question the administration witnesses on U.S. policy and refusal by administration witnesses to appear is simply not acceptable.

Now I know that you are in a way an innocent bystander in this whole procedure. But the Congress and this committee believe that this is a very, very serious matter and a very important issue. I hope that you can relay the concern that we have on the Appropriations Committee about the apparent lack of interest as Congress continues to work on these very, very difficult issues.

Mr. Krist, you may begin your testimony.

# EXECUTIVE OFFICE OF THE PRESIDENT

## U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL TRADE POLICY

## STATEMENT OF WILLIAM K. KRIST, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL TRADE POLICY

### U.S. EXPORT FINANCING POLICY

Mr. KRIST. Mr. Chairman, I very much appreciate your comments. I apologize for the confusion. I want to assure you that we are very interested in working with this committee and very sensitive to your interests and your concerns on this issue. We have substantial concerns on this issue also.

Again, I apologize for the confusion. In spite of it, I am very pleased to be here today and to have this opportunity to discuss with you the export financing policy of the United States.

I would like to address my remarks to the specific issue of the role of the Eximbank in furthering U.S. trade policy objectives as did my predecessors. With your permission I would like to summarize my statement on the understanding it will be submitted for the record.

### COMPETITIVE ACCESS TO WORLD MARKETS

Mr. Chairman, the assurance of competitive access to international markets for U.S. industries is an essential component of the administration's program for economic recovery. It also provides the foundation and direction for U.S. trade policy.

The term competitive access, from our perspective, presupposes that we are operating in an international economy where market forces are, in fact, the ultimate arbiter of market share. Yet our views are not necessarily shared by all members of the international community.

As we move toward our goal of liberalizing the world trading system, we are continually challenged by a plethora of trade-distorting practices designed by foreign governments to maximize the short-term benefits to their individual economies.

### SUBSIDIZED EXPORT CREDIT FINANCING

One of the most distortive of these practices is subsidized export credit financing. In an attempt to expand access to both the U.S. and third-country markets, a number of developed and developing nations alike distort normal competitive factors by engaging in the extensive use of export credit subsidies.

For some of these nations, export credit subsidies are a way of life, intrinsic to the realization of their social goals. For us they are an anathema that we are striving on a number of fronts to eliminate. Yet, our ability to utilize export credit subsidies through the

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Eximbank has provided us with not only a means by which to offset the distortion they foster, in essence neutralizing financing as an element in international competition, but with leverage in our efforts to eliminate subsidized export financing through the OECD arrangement negotiations.

## EXIMBANK ROLE IN TRADE POLICY

Eximbank's role in trade policy can be characterized as twofold. Over the long term, the Eximbank enables us to demonstrate to our trading partners how serious we are about the need to reduce the costliness of the export credit subsidy race.

In the short term, it enables us to insure that the competitiveness of key U.S. industries in foreign markets is not compromised by foreign credit subsidies.

## SECTOR FINANCING REVIEW

Mr. Chairman, last year, under the direction of the Trade Policy Committee, which USTR chairs, we embarked upon a major study, the objective of which was to assess the importance of export financing to competitive access to international markets for 18 sectors of the U.S. economy. I would like to present you with the final versions of the Sector Financing Review today.

One of the most important findings of the Sector Financing Review, in my opinion, is the isolation of those factors that provide a logical explanation for the heavy concentration of Eximbank resources in specific sectors.

Through our analysis of 18 industry groups, we determined that the terms of a long-term financing package that would assure competitive access to an overseas bid were typically a function of the following factors:

The complexity of the export, with cost and useful life considerations being important;

The level of development of the purchaser;

The degree of foreign competition and the type of financing available on the foreign bid; and

The relative levels of technology between the U.S. product and the foreign product.

Combining a review of those sectors targeted most heavily by foreign governments for official export credit support, with a brief analysis of the level of U.S. technology relative to that of the major competition in the chosen sectors, we determined that long-term official support would usually be a key factor in competing for developing country markets for large jet transports, power generation equipment, telecommunications equipment, locomotives, construction and engineering services, and project-related machine tools, construction equipment, and mining equipment.

It would be no exaggeration to state that the continued strength of these sectors, important to the industrial base of the U.S. economy, is to some degree dependent upon export sales, and that competitive export financing can be an important factor in securing these export sales.

This is a principal reason why the United States has intensified its efforts to reduce the subsidy element in export financing for medium- as well as long-term financing. Negotiating to remove the subsidies is important to both reduce the high cost to governments and because such subsidies can lessen the very benefits we desire from trade.

We concluded that there are a number of steps that the Bank could take to more effectively utilize its resources, a chief one being to assure that Eximbank direct credits were targeted toward those export transactions where financing was needed to neutralize an advantage hoped to be gained through the use of foreign credit subsidies.

As Mr. Draper mentions in his testimony, the Bank has adopted such a targeted approach with success.

In addition, the Sector Financing Review recommends that consistent with U.S. trade policy objectives consideration be given to limiting Eximbank support on a case-by-case basis for exports related to projects that have onerous performance requirements aimed specifically at the United States.

It also recommends that the U.S. Government seek multilateral agreement to preclude subsidized financing for the production of goods in structural oversupply in world markets—for example, steel—and that we review in greater detail the importance of financing to a growing component of our trade balance—service exports. We have begun to implement these latter recommendations.

Mr. Chairman and members of the subcommittee, I think it would be fair to characterize the relationship between the Eximbank and U.S. trade policy as a symbiotic one—neither of us would function effectively without the other.

Our ability to choose our future course of action in the realm of trade policy hinges upon our ability to foster an environment in which free market forces are allowed to operate. Eximbank plays an important role in the realization of this objective.

Again, thank you for giving me the opportunity to share my thoughts on export financing with you today.

I will be happy to answer whatever questions I may be able to.

[The statement of Mr. William K. Krist is as follows:]

## PREPARED STATEMENT OF WILLIAM K. KRIST

### Assistant U.S. Trade Representative for Industrial Trade Policy

Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to discuss with you the export financing policy of the United States. I would like to address my remarks to the specific issue of the role of the Eximbank in furthering U.S. trade policy objectives.

### EXIMBANK AND U.S. TRADE OBJECTIVES

Mr. Chairman, the assurances of competitive access to international markets for U.S. industries is an essential component of the Administration's program for economic recovery. It also provides the foundation and direction for U.S. trade policy. The term competitive access, from our perspective, presupposes that we are operating in an international economy where market forces are in fact the ultimate arbiter of market share. Yet our views are not necessarily shared by all members of the international community. As we move toward our goal of liberalizing the world trading system, we are continually challenged by a plethora of trade-distorting practices designed by foreign governments to maximize the short-term benefits to their individual economies.

The increasing prevalence of trade-related performance requirements, non-competitive procurement policies, and a host of other tariff and nontariff barriers and distortions to trade serve only to divert economic resources from their most efficient use, with the associated reduction in benefits to the world economy as a whole.

One of the most distortive of these practices is subsidized export credit financing. In an attempt to expand access to both the U.S. and third-country markets, a number of developed and developing nations alike distort normal competitive factors by engaging in the extensive use of export credit subsidies. For some of these nations, export credit subsidies are a way of life, intrinsic to the realization of their social goals. For us they are an anathema that we are striving on a number of fronts to eliminate. Yet, our ability to utilize export credit subsidies, through the Eximfoster, in essence neutralizing financing as an element in international competition, but with leverage in our efforts to eliminate subsidized export financing through the OECD Arrangement negotiations. Eximbank's role in trade policy can be characterized as two-fold. Over the long-term, the Eximbank enables us to demonstrate to our trading partners how serious we are about the need to reduce the costliness of the export credit subsidy race. In the short-term, it enables us to ensure that the competitiveness of key U.S. industries in foreign markets is not compromised by foreign credit subsidies.

The role played by the Eximbank in furthering U.S. trade policy interests assumes greater importance when we focus upon those sectors in which Eximbank resources have in fact been concentrated. While the percentage of exports financed with Eximbank direct credit resources has been small relative to total U.S. exports, averaging 6 to 8 percent of U.S. capital goods exports, Eximbank has been instrumental in financing the exports of industries such as large jet transports, power generation equipment, mining equipment, construction equipment, locomotives, and telecommunications equipment. These are precisely those sectors for which competitive access to international markets, particularly the developing country markets, may be important to their continued viability. These are also the same industries for which competitive export financing has become a key factor in determining actual market share.

## SECTOR FINANCING REVIEW

Mr. Chairman, last year, under the direction of the Trade Policy Committee, which USTR chairs, we embarked upon a major study, the objective of which was to access the importance of export financing to competitive access to international markets for 18 sectors of the U.S. economy. I would like to present you with the final version of the Sector Financing Review today.

One of the most important findings of the Sector Financing Review, in my opinion, is the isolation of those factors that provide a logical explanation for the heavy concentration of Eximbank resources in specific sectors. Through our analysis of 18 industry groups, we determined that the terms of a long-term financing package that would assure competitive access to an overseas bid were typically a function of the following factors: the complexity of the export, with cost and useful life considerations being important; the level of development of the purchaser; the degree of foreign competition and the type of financing available on the foreign bid; and the relative levels of technology between the U.S. product and the foreign product.

From this information it could be discerned that the need for Eximbank to match official financing generally increased in importance as a factor in efforts to secure foreign sales as:

1. The terms of the foreign official financing package became more concessional: The differential between the market interest rate and the official rate increased; the repayment period was extended; the cover was increased;
2. The importers' access to capital markets for long-term project financing became more limited; and
3. The degree to which U.S. technological prowess was relatively comparable to that of the foreign competition.

Combining a review of those sectors targetted most heavily by foreign governments for official export credit support, with a brief analysis of the level of U.S. technology relative to that of the major competition in the chosen sectors, we determined that long-term official support would usually be a key factor in competing for developing country markets for large jet transports, power generation equipment, telecommunications equipment, locomotives, construction and engineering services, and project related machine tools, construction equipment and mining equipment: The following illustrates that a number of these sectors in 1980 were dependent upon export markets for a large percentage of total sales:

*Large jet transports:* Exports of $5.6 billion in 1980 represented 68 percent of total industry shipments.

*Construction equipment:* Exports of $5 5 billion in 1980 represented 40 percent of total industry shipments.

*Telecommunications equipment:* Exports of $9.9 billion in 1980 represented 20 percent of total shipments

*Conventional power equipment:* Exports of $1.6 billion in 1980 represented 42 percent of total shipments.

*Nuclear power equipment:* Exports of $1 billion in 1980 accounted for 20 percent of total industry shipments.

*Mining equipment:* Exports of $675 million in 1980 represented 27 percent of total industry shipments.

It would be no exaggeration to state that the continued strength of these sectors, important to the industrial base of the U.S. economy, is to some degree dependent upon export sales, and that competitive export financing can be an important factor in securing these export sales.

To provide an overall picture of typical export financing practices, we also looked at the medium and short-term financing practices of selected U.S. industries. While we concluded that for exports financed over the short-term, financing terms were not usually a critical determinant in an export award, a small share of total medium-term export sales, specifically cases involving foreign government procurements were discovered to be as dependent upon competitive levels of official support as those exports financed over the long term. As the technological and servicing lead of U.S. manufacturers of products exported over the medium-term has diminished, financing and price considerations have become important elements in determing export competitiveness. Particularly in the case of a large procurement of expensive equipment or in instances where equipment is included in a portion of a project, competitive export financing may be a key factor as the debt- servicing requirements of financing the export increase.

This is a principal reason why the United States has intensified its effort to reduce the subsidy element in export financing for medium as well as long-term financing. Negotiating to remove the subsidies is important to both reduce the high cost to governments and because such subsidies can lessen the very benefits we desire from trade.

We concluded that there are a number of steps that the Bank could take to more effectively utilize its resources, a chief one being to assure that Eximbank direct credits were targetted toward those export transactions where financing was needed to neutralize an advantage hoped to be gained through the use of foreign credit subsidies. As Mr. Draper mentions in his testimony, the Bank has adopted such a targetted approach with success. In addition, the Sector Financing Review recommends that consistent with U.S. trade policy objectives consideration be given to limiting Eximbank support on a case-by-case basis for exports related to projects that have onerous performance requirements aimed specifically at the United States. It also recommends that the U.S. Government seek multilateral agreement to preclude subsidized financing for the production of goods in structural oversupply in world markets (e.g. steel) and that we review in greater detail the importance of financing to a growing component of our trade balance—service exports. We have begun to implement these latter recommendations.

## CONCLUSION

Mr. Chairman, and Members of the Subcommittee, I think it would be fair to characterize the relationship between the Eximbank and U.S. trade policy as s symbiotic one—neither of us would function effectively without the other. Our ability to choose our future course of action in the realm of trade policy hinges upon our ability to foster an environment in which free market forces are allowed to operate. Eximbank plays an important role in the realization of this objective. Again, thank you for giving me the opportunity to share my thoughts on export financing with you today.

## GENERAL QUESTIONING

Senator KASTEN. Thank you, Mr. Krist.

I get the feeling that some of you are operating in a Never Never Land in response to the idea that we will have some kind of agreement on June 15.

Frankly, the efforts that we have made to find out what the likelihood of that agreement being made is less than 50-50. So I would like to ask each of you to be more specific.

What is your current reading on what the European Community is going to do and, second, was this matter discussed at Versailles and if so what were the results of the discussions at Versailles?

Why don't we begin with the Treasury, Mr. Cornell.

Mr. **CORNELL**. Thank you, Mr. Chairman.

As regards our current reading, I would hardly be honest if I came before you today and behaved optimistically.

Senator **KASTEN**. Could you speak closer to the microphone. It is difficult for the people in the back of the room to hear.

Mr. **CORNELL**. Our current reading is not optimistic. Our current reading suggests that the chances are indeed less than even that the chairman's compromise will be accepted.

This is not to say that there is not still a measurable probability, but the difficult decisionmaking process that the European Community is now going through and, to the extent that we have information, the policy debates that are going on in the individual member states suggest to me that we run a serious risk within only a few days of finding ourselves in a world where there is no longer any international arrangement.

### VERSAILLES DISCUSSION

Senator **KASTEN**. Was this matter discussed at Versailles, and if so what were the results of that discussion?

Mr. **CORNELL**. The matter was discussed at Versailles. I don't believe it was discussed in great detail by the heads of state. I know it was discussed in various side meetings at the ministerial level. I know Secretary Regan was involved in discussions of it with his counterparts. Serious efforts were made to explore at that level various possibilities to reach some compromise of the compromise.

I think it is correct to categorize the results of these meetings as inconclusive, particularly since there were a lot of other things on the agenda. Yet it is also true to say that many of the summit participants at that level are very fearful of what could happen within a week and are still attempting to find some way to produce a resolution of the issue within their own governments.

The United States meanwhile is not taking a position of being induced to agree to further delays or to agree to compromises which we cannot accept in this atmosphere.

The problem is in many respects a European problem. This is a compromise on the table that most of the arrangement participants, including the United States and Japan, are prepared to accept. Therefore, the problem is for the Europeans to come to a resolution in terms of their own policy, so that we can end up with an agreement that we can all live with.

Senator **KASTEN**. Mr. Strauss, what is your assessment from your perspective and was this discussed at Versailles?

I am also interested if there are any memoranda or any kinds of written understandings, agreements or reports, formal or informal, that came out of any discussions at Versailles.

Mr. STRAUSS. Mr. Chairman, we agree with the assessment of Mr. Cornell on the probability of ratification on June 15. I have nothing to add to his statement. So far as we know of what occurred at Versailles, we do not have information beyond what Mr. Cornell stated to you in the Commerce Department. We are examining, in light of the possibility that the arrangement will not be ratified, contingency plans which include, as Mr. Cornell mentioned earlier in his testimony, the whole range of options as we take another look at our position on export financing generally.

We are working with other agencies to begin to develop these plans.

Senator KASTEN. Mr. Krist.

Mr. KRIST. Mr. Chairman, unfortunately I cannot offer you any cause for optimism either. I share the pessimism on the likely European reaction on June 15.

The one bright spot I think is that a number of the governments in Europe have the same budget stringencies that we do, and they realize the self-destructive nature of an export credit subsidy contest.

I also do not have any other information to add on Versailles. Mine would be the same as Mr. Cornell's.

Senator KASTEN. I would just like to point out that the key part of the testimony, especially from Treasury and Commerce, is what is going to happen on June 15. Yet when we pin it down, it is clear that your information is roughly the same as the information we are getting, and that is that the chance of anything happening on June 15 is very slight.

The fact that we are now about to begin planning for contingencies or going through the shopping list that you included in your testimony, what does that mean?

I would like to suggest to you that it is too late, and I also would like to ask you if you are aware of the fact that this is going on right this minute and these additional requests would be for all practical purposes too late for the fiscal year 1983 budget process, the process of legislating with either the authorizing or the appropriating mechanisms, and we also passed a budget in the Senate which did not take these contingencies into account and the House may pass one this afternoon.

Could you respond, Mr. Cornell, how you expect to start to work through that list of alternatives under those circumstances?

Mr. CORNELL. Yes, sir, I can respond.

First, I think I should say that we do not plan a 3- or 6-month or 1-year program of review. This whole process remains a hypothetical question until midnight on June 15.

Actually we will know the answer sooner because the European Community Economic and Financial Ministers are meeting on the 14th. We should know roughly what their decision is early in the morning next Tuesday.

I would not want to leave you with the impression that we have deliberately avoided any kind of contingency thinking up until now. We have thought long and hard about the various things that the United States can do. We have certainly reached a preliminary conclusion that, in the event the arrangement falls apart, as indeed it will next Tuesday if we do not come to agreement, the United

States needs to adopt a policy posture to maximize our chance of winning the inevitable credit war that will result.

I do not think that it will take more than a few days or perhaps a week or two for us to put together all we need in order to decide exactly what policies will be recommended to Cabinet-level officers in this Government. I believe you will see emerging from the administration a set of policy decisions very rapidly after June 15.

Senator KASTEN. I hope you are right. I am suggesting to you even if the administration were able to get its act together, which it has been unable to do for a year and a half, that now it might be too late for the process here to take place and by waiting we miss several of the legislative branches' deadlines.

There are ways around that through supplementals and other kinds of things, but it could very easily be too little too late. The result could be a loss of more jobs.

One of the options that you list is a higher level of funding for the Eximbank. I think it is important to consider that the Director of OMB has been quoted as saying the appropriate amount for Eximbank is zero.

How realistic is it to assume with a negative response from the European Community, changes in the international agreement, that this administration would in fact agree to higher funding levels of the Eximbank or war chest kind of effort that you referred to in your statement?

Mr. CORNELL. In response to that, I have authorization to say from the highest level in my own agency that the administration would plan, after next Tuesday, if we fail in negotiations, to take an entirely fresh, clean look at this entire issue. There are no constraints on the kind of look we are going to take.

I would not have listed Eximbank funding as something that will be looked at very closely if I had not meant that we intend to look at it and perhaps change our view as to what levels of funding are required for the Eximbank.

Senator KASTEN. Mr. Stauss, would you respond to that question?

Mr. STRAUSS. The Department of Commerce agrees completely with what Mr. Cornell has said about looking at all alternatives, including levels of funding of the Eximbank.

Senator KASTEN. Mr. Krist.

Mr. KRIST. Mr. Chairman, Ambassador Brock has stated a number of times that we would want to review those options very conscientiously and look at them, both the war chest bill and the level of Eximbank funding.

In the event the arrangement is not successful and we do face lower European interest rates and a greater level of subsidization, as I noted in my testimony a number of our key industries would be very hard put to compete in their key export markets.

Those will be options that we will be looking at very carefully.

Senator KASTEN. Senator Rudman.

Senator RUDMAN. Thank you, Mr. Chairman.

### LOSS OF AMERICAN JOBS

Mr. Cornell, this is really not a complicated issue when you come down to the bottom line. The fact of the matter is that this administration has attempted to sell its particular ideology to our trading partners. On June 15 we are going to find out whether they buy it or not.

If they don't, what choice do you think we have other than vigorous funding at the earliest possible moment for all of the means that we have, Eximbank and others, to give American industry a chance to keep some of the jobs that we are now losing?

What other option is there?

Mr. CORNELL. Sir, there are several options. First let me say that in the kind of trade war that is likely to evolve if the arrangement falls apart, even the highest conceivable levels of funding would not necessarily guarantee that we would save those jobs, that we would save the competitive position of the U.S. exports. This is because there will be a lot of countries out there more willing, even than the most generous in our own Government, to throw money at the problem.

That does not mean that increased Eximbank funding is not a very effective tool to use. As I said, it is right up there at the top of the list of the things we are going to consider. If we envision such an international trade credit conflict, then I suggest that we had better have some other arrows in our quiver; otherwise we are going to lose. What kind of arrows can those be?

There are numerous provisions of trade law which can be used as weapons to counter export credit subsidies, especially in our own market—which is a very critical situation—but also in third-country markets.

Since so many countries agree with the United States in this area, there is always the possibility of immediately beginning negotiations of a brand new arrangement on a very high priority basis. If necessary, this new arrangement could leave out those who prefer to follow the subsidy route. This would perhaps create a situation where most of the world would march down the right road, while a few countries would attempt to compete with the rest of the world by going down the wrong road.

A whole series of policy tools and devices would need to be put together into a completely thorough strategic package, if we are to have any hope of dealing with the situation we would face if things fail next Tuesday.

Senator RUDMAN. I assumed that would be your answer. Therefore I will ask my second question.

If that is so, why don't you have it all mapped out, bound, filed, and locked in the safe in the Treasury Department and ready to go on June 16?

Mr. CORNELL. I think the answer to that is that while it is not written down as if it were a contingency war plan, to use a defense analogy——

Senator RUDMAN. I think it ought to be a war plan. I think it is war right now.

Mr. CORNELL. It is very close to being done. That is the point I made before.

### NEW YORK CITY SUBWAY CAR DEAL

Senator RUDMAN. Let us talk about the alacrity with which we use our present law. What is the present status of the Treasury Department action concerning your statutory rights involved with the New York City Transit System subway car deal with Canada and France?

You have a number of tools at your disposal. What is being done?

Mr. CORNELL. We do have the section 1912 tool at our disposal. That process is moving along very rapidly. We have gone through most of the steps that are required by the law. We have ascertained the facts of the case. We have requested the offending countries, namely France and Canada, to realine or reoffer their packages in order to conform with the international arrangement, that is, the arrangement of last November. Finally, we are preparing an analysis for the Secretary of the Treasury to judge (a) whether financing was a determining factor in the case; and (b) whether to use our fiscal authority to authorize Eximbank to provide competitive financing. We expect to have the whole process completed by next week.

Second, we have achieved some modest success in fleshing out what the other two countries are doing and moving at least one of them, namely France, to come to the arrangement terms.

Senator RUDMAN. I would say, Mr. Cornell, that that particular incident involving a large amount of money to be put into a metropolitan transit system, paid for with public funds, has a lot of people very concerned and I think justifiably so, and I am glad to hear you moving forthrightly.

If you make the finding that I think you will make in considering the incentive, it would seem to me to be a very good message to send out. We are not just talking about Boeing or Westinghouse or selling things in South America or any other part of the world. We are talking about the sale of a major transit system in this country, invading our own domestic market.

To take up a second line of questioning, and, Mr. Chairman, I will be brief, you know it is very interesting to read philosophical statements hanging by themselves without statistical backup, and you, Mr. Cornell make several. You and a lot of other witnesses make statements opposing official export credit subsidy.

It is a matter of ideology I guess. To use an analogy you made earlier, I guess we all would prefer a perfect world with respect to defense spending. We would like to spend zero if we could, but we can't.

### WHARTON ECONOMETRIC STUDY

Are you familiar with the Wharton econometric study done for Westinghouse and Budd, which I had seen before today, but I have it again with me today? Have you read that particular study?

Mr. CORNELL. Yes, sir.

Senator RUDMAN. Have you any problems with its methodology?

Mr. CORNELL. Since it is awhile since I read it, I really can't get into a discussion of the details of its methodology. I basically have no problem with them if one accepts the assumptions. It is a credible argument and nobody can argue otherwise.

There are credible arguments from an opposite point of view. I would urge you to please remember that in the early parts of my testimony I also made some assumptions. One of those assumptions was that a world with no distortions to the way free markets operate is the best way; it results in more export jobs than any other way.

Senator **Rudman**. That is like describing a political campaign in which there is no television.

Mr. **Cornell**. I have also said that the administration has made an enormous, high-priority effort to see if we could get closer to that kind of world, because we think it is the best solution.

I think we have tried to give you a clear signal today that we well recognize with a great sense of reality the kind of decisions that will have to be taken if indeed those negotiations fail.

Senator **Rudman**. I just want to say, to refresh your recollection, that Wharton, which is pretty well respected, hardly an off-the-wall economic forecasting organization or planning organization, points out that at a number of varying interest rates the net regenerative effect of the cost of these loans, whatever rate is projected, is an actual plus in the $700 to $850 million range to both State and Federal treasuries after the subsidization.

Of course I am not arguing that everything ought to be subsidized, but it certainly does suggest if you run into a problem on June 15 you may not do as much violence to your ideology as you think you would if these particular statistics are valid.

Mr. Chairman, I have another hearing at 2:30, and I will ask one more question.

You talked a great deal about our trading partners. We have a unique situation with the Japanese. The Japanese, because of their restrictive monetary policies, their lack of defense spending, and their generally well-managed economy, have a prime interest rate now in the vicinity of 8 to 8½ percent.

My understanding is that the agreement with them will be with the upfront fees somewhere between 9¼ and 9¾ percent. This will still give the Japanese, if you will, a rather substantial competitive advantage against our own Eximbank interest rates.

Is that accurate?

Mr. **Cornell**. The facts are quite accurate, sir. That is about where the Japanese market rates are. The agreement would provide that the Japanese would provide export credit at a blended rate, that is, a combination of their official and private financing, usually in 60-40 packages or 70-30, that would be three-tenths of 1 percent higher than their market rate.

That is a problem, that is a competitive problem, not only for the United States, but for all the other countries which have high interest rates. I think we have solved that problem by reaching quite rapidly and quite amicably an agreement with the Government of Japan and Japan's Ministry of Finance which will permit our Export-Import Bank to provide guarantees for yen-denominated loans at the same rates that the Japanese can offer. It is generally the policy of the Japanese Ministry of Finance to very carefully control access to the Japanese capital market by foreign borrowers. In essence, the new agreement with the Japanese allows the U.S. Eximbank, through this guarantee mechanism, to stand at the head of the line all the time. I think this neutralizes the potential difficulty of competition.

There is another problem that can arise in a case like this. Japanese trading companies, which carry on their books large chunks of dollar-denominated liabilities, can in effect absorb the exchange risk by borrowing cheaply in yen and turning around and lending dollars at the yen rates. We have a commitment from the Japanese that they will prevent this practice from occurring.

Senator **Rudman**. Thank you very much.

I would simply say, Mr. Chairman, and I am sure you will agree with me, that the sentiment right now is if on June 15 we don't have the agreement we are looking for, that I expect Treasury will get a great deal of help from the Congress in doing the things we need to do in moving this thing very quickly into whatever area we ought to move.

If you look at the evidence given to this committee of a number of major export transactions that have been lost due to improper competition, if that is the right word, of foreign governments in terms not of rates, but what it has meant to American companies, that the time has come to us to take the bull by the horns.

I hope you get agreement by June 15. If you don't, I expect we will put ideology aside and move into the world of direct competition at whatever price.

Thank you, Mr. Chairman.

Senator **Kasten**. Thank you, Senator Rudman.

I have just one further question.

What is the Treasury's view of the desirability of the United States taking the position or adopting the position that the GATT Subsidies Code prohibition on official or on Government export credit applies if there is no agreement on export credit subsidies in effect, that we just put that prohibition in, in the absence of agreement?

Mr. **Cornell**. I will give you an answer, sir, but I would also like to defer to the USTR which has primary responsibility for handling GATT issues.

Let me say we are in complete accord with the USTR. We see it as one of those trade policy tools, that it is a nonfinancial tool, that I was talking about before. We have no disagreement within the administration on how this ought to be pursued.

Senator **Kasten**. Mr. Krist.

Mr. **Krist**. Mr. Chairman, the Subsidies Code basically prohibits export subsidies which includes export credit subsidies. The paragraph on the list of export subsidies, paragraph 2 of HCM K of the illustrative list, exempts export credit financing that is consistent with the OECD arrangement. However, it does not exempt financing that is below the OECD arrangement. In our view, therefore, if the OECD arrangement was null and void, that would indicate that export credit subsidy would be prohibited.

Senator **Kasten**. Thank you. I would like to thank you for your testimony. Although it has been disturbing, I want to say that all of us agree with what the Senator from New Hampshire just said.

Many of us will go further, that if an agreement is reached on June 15, that is the first and a small step, it is an important step, but with the shopping list that appeared in your testimony and the different issues that we have talked about today, I think we will have to go forward on a number of those fronts with or without an agreement in the next week.

Without an agreement there is no question but that we are going to have to recognize that we are in a trade war, and this is every bit as important as wars that we are waging in other areas. I am disappointed we are not able to be more optimistic.

I want to suggest with or without an agreement there is a great concern on this whole set of issues on behalf of the Congress of the United States.

I thank you all for your testimony today.

The next panel will include Mr. Stamper, Mr. Hurlbert, and Mr. Durka.

We are pleased to have Mr. Stamper, president of the Boeing Co., Mr. Hurlbert, president of the Power Systems Co. of the Westinghouse Electric Corp., and Mr. Durka, manager of the international trade policy operation of the General Electric Co. to be with us today. We are pleased to have you. We are looking forward to your testimony.

As I mentioned earlier, I want you to keep in mind that your entire statement will be made part of the record. If you are able to summarize your statement, it will afford us more time for questions and discussion.

Mr. Stamper, welcome. If you will head off, we will appreciate it.

# NONDEPARTMENTAL WITNESSES

## BOEING CO.

**STATEMENT OF MALCOLM T. STAMPER, PRESIDENT, THE BOEING CO.**

**ACCOMPANIED BY:**

**MR. MUNSON**

**MR. PIERCE**

### FUNDING LEVEL AND OPERATING POLICIES OF EXIMBANK

Mr. STAMPER. Thank you, Mr. Chairman. I appreciate the opportunity to come before your subcommittee today to tell our story.

In the time allotted I thought I would summarize what I consider to be the two key issues:

First, the funding level of the Eximbank; and second, new operating policies of the Bank that are related to that funding.

In reducing the Eximbank funding level, I will assume everyone here agrees that no taxpayer-appropriated dollars are involved, that no trades between social programs or defense programs are required, and that no international free trade results as an effect of that.

One effect it does have is that reduced funding has caused a dramatic change in the policy of the Eximbank in its approach to supporting exports. Boeing has dealt with the Bank for as long as we have been in the commercial airplane business. We have been partners for a long time. Last year, Boeing customers used 43 percent of the Bank's loans, around $2.6 billion, the year before—$1.4 billion, which is about 25 percent of the total loan capability.

We were the leading exporter in the United States for those years and very proud of it, of course, and the contributions that made to the balance of trade. In the first half of this year, our customers have been authorized $91 billion by the Bank. At that rate, we certainly won't be the leading exporter this year.

Strange when you think of it and consider that this year we are bringing out two new airplanes, the 757 and 767. We are also offering for sale two models of the 737-300 and the 747 S.U.D. Business is bad, but it is not that bad. The falloff in Eximbank loans is not responsible for all that change certainly, but it is a factor.

Let us look at the marketplace for commercial airplanes for a moment. Our chief competitor today is Airbus Industries, primarily a government-owned European consortium. They have moved from a distant fourth place in the industry 4 years ago to a solid second place last year.

We like competition at Boeing, and we welcome them to the marketplace. They have a right to compete. We do need to work out ground rules that are fair, of course. Their development and productions are subsidized, the Concord A300 and A310.

Government ownership gives them government-to-government support and leverage as well. Over 75 percent of their sales of the A310 versus the 767 are to government-owned airlines, 50 percent to European government airlines. Only 13 percent of Boeing's are to government-controlled airlines in that competition.

Putting all of that aside, we much prefer being a private company operating in a free economy, and we don't envy them in the least.

Their governments support them in another way, and that is in financing their exports. For this type of reason, the U.S. Eximbank was originally established by Congress to give U.S. industry a fair chance in the international marketplace. Competitive financing was getting out of hand during the last several years, and so an agreement was reached between the United States and the European consortium called the commonline agreement.

It ran from last September to this coming September. We agreed that 12 percent would be the minimum interest that would be charged, and that it would go for a 10-year term and 42½ percent of the funds required, hoping to get parity out of that arrangement.

That is the agreement, and this is the practice. Airbus allows foreign content to be covered by the loan, multiple currency lending. They give upfront financing. It is immediately available when they make the offer. All countries are eligible. Follow-on orders are encouraged. All models are supported, A300, A310 and so forth. There is no upfront fee charged. There is no competition required. They support their grandfather deals. These were any offers they made prior to the commonline agreement during the moratorium phase.

Under our U.S. Eximbank policy there is no foreign content covered. There is no multiple currency lending. They use targeted financing support only on a case-by-case basis. Developed countries are not eligible for direct credit. Follow-on financing is discouraged—747's, 737's and 727's are not eligible. A 2-percent upfront fee is charged. Competition is required. There are no grandfather deals carried over.

Let us look at three cases showing the impact of these constraints.

Singapore Airlines: The agreement with Airbus they had was grandfathered. Eximbank policy did not permit an equivalent U.S. offer. It was a developed country besides.

Lim Chim Bing, head of Singapore Airlines, said in an interview in April in the Seattle Times, he saved $40 million in interest cost over buying Boeing 757's.

The second case: Trans-Brazil, in January the Bank said their targeting plan would only allow guarantees, no direct credits in that competition. Trans-Brazil objected strenuously. Vasp Airlines got excited and accelerated their decision. Eximbank said to have faith, they would not lose either of the deals. They talked to the heads of both companies, and they finally had to give full credits to both airlines instead of guarantees.

They did finally match on what I call an interest bugging basis the deals. Vasp got the nine A310's instead of the 767's.

There was other government-to-government financing. We do charge an extra 2-percent fee that they don't. Trans-Brazil, which was all set to sign in February and March, now is still undecided.

Omar Fontana, head of Trans-Brazil where we have competed with the 757 against the A310 wired the following in regard to the Vasp A310 order:

> The reason for this spectacular gain by Airbus appears to be due solely to their extreme flexibility in the financing area in flagrant contrast to the rigid and uncompromising posture of the Eximbank. As already stated, we simply cannot afford to pay higher interest rates than those obtained by our Vasp competitors.

The third case, Air Afrique wants to buy 747's to fly between Abidjan and Paris. They need credits. Eximbank ground rules them out. There is no competition for 747's they claim. We have explained that the A300 can make one stop and compete.

Also there were two other scenarios where they can compete. By the way, they handle their route structure and their airline. Eximbank was adamant and their rationale by not approving loans on 747's they proved to Congress and the administration that they are targeting, that is, that they are only granting selective loans to meet budgetary limitations.

The following wire is from Aoussou Koffi who is president and director general of Air Afrique:

> The board concluded that the current high rates of interest which would be incurred by this purchase of Boeing 747-200's were not acceptable and that Air Afrique should seek some alternative solution to our requirement for additional aircraft in the 1984 time period.
>
> The Export-Import Bank of the U.S. has advised that they would provide only a guarantee with no direct participation in our planned purchase of the 747. Our experience with Airbus Industries indicates that we could purchase one or more additional A300B's at export agency rates. We would be willing to raise the issue again with the Board of Directors only if export agency credit rates could be obtained.
>
> Sincerely,
>
> AOUSSOU KOFFI,
> *President, Air Afrique.*

We appealed to the Eximbank again. They are reviewing the case currently.

In regard to the 747 I have to admit I am not very objective. I was in charge of that program from its inception until it went into airline service from 1966 to 1970.

For the benefit of the committee the nose is built in Kansas, the body is built in California, the tail in Texas, landing gears are built in Ohio, the wing high-lift devices in New York, engines in Connecticut, Ohio, et cetera, et cetera.

More than 50 percent of the value is in 47 States. There are thousands of suppliers of the 4½ million parts. You could call them invisible exporters that ship their goods to Seattle where we complete the final assembly.

By Eximbank's refusal to fund the 747's we are forced to lay off workers that are earning a living and paying taxes and put them on unemployment compensation and food stamps. These workers have outdesigned and outproduced their foreign counterparts. We are not supporting them when we can easily do so. Imagine what the French would do if they had a 747 to support.

The Bank's boycott of 747's is attributed to lack of funds. Yet they may end up this year with a surplus. Their newly stated goal for running the Bank is their so-called threefold strategy: (1) Targeting resources; (2) negotiating to reduce export credit subsidies; and (3) maintaining a sound financial condition.

Nothing mentioned about supporting U.S. exports and U.S. jobs. It is our understanding that they feel they are supporting what Congress and the administration wants in following this policy.

We laid off 10,000 employees at Boeing last year, so far this year 4,000 more. There will be another 6,000 if something doesn't change. Not all of these are due to Eximbank funding and policies, but some of them are. You have to multiply that unemployment figure, by the way, by three to cover our suppliers throughout the country who are affected by our cutbacks.

It is a serious problem that we are working on today. We need an aggressive Eximbank that is not afraid to fight and not too poor to compete.

Thank you for allowing me to tell our story here today.

[The statement of Mr. Malcolm T. Stamper along with a supplemental response submitted for the record are as follows:]

## PREPARED STATEMENT OF MALCOLM T. STAMPER
PRESIDENT

## THE BOEING COMPANY

Mr. Chairman, members of the Subcommittee, ladies and gentlemen: I am Malcolm T. Stamper, President of The Boeing Company.

I want to thank the members of this subcommittee for asking me to appear here today, and to thank you for your interest in the Export-Import Bank.

Contrary to some of the things we've been reading in the papers lately, I want to reassure you that I don't think the Ex-Im Bank was created exclusively to help Boeing sell airplanes. There are those who like to call it "The Boeing Bank", but that's not quite true -- and I hope in the future it becomes even less true.

Boeing has been doing business with the Export-Import Bank for a long time -- as long as we've been in the commercial airplane business. We've grown together, and with the Bank's participation, Boeing has become this country's number one manufacturing exporter. Last year, for example, Boeing accounted for slightly more than 43 percent of the Bank's direct credit loans to foreign firms.

There are some in government -- and in fact, some in the Ex-Im Bank -- who argue that the Bank's participation with Boeing should be scaled back, while at the same time the bank itself is being cut. We don't agree with that. We'd like to do more business with the Bank, but we'd also like to see the Bank expand and grow, so that we could be a smaller percentage of a much larger Bank. Last year, America's trade deficit was nearly $28 billion. We are proud that U.S. civil aviation exports of nearly $10 billion helped offset a much larger deficit. One cure for trade deficits, it seems to me, would be a bigger Bank, which would encourage greater aviation exports.

My understanding of the Ex-Im Bank is that it was created to help promote exports. But in addition, it was created to help foreign firms and their nations buy big ticket goods that would be of social and economic benefit. Airplanes certainly meet his description. Air travel and air cargo have significantly contributed to the good of this planet, particularly among the smaller and lesser developed nations. Thus, the Export-Import Bank's assistance to the airlines of the world has been in keeping with America's vision of itself as a facilitator and motivator of world development and commerce. Airplane exports are also very good business for this country's own economy, by the way.

I am here today to ask two things. First, that the Ex-Im Bank be adequately funded, and secondly, that its policies be corrected so that the Bank encourages -- rather than discourages -- the export of commercial jet airplanes.

The Administration's proposed direct loan authorization of $3.83 billion for the Bank for FY 33 is simply too small. In my view, so is the $4.4 billion set forth in the Senate Budget Resolution. That represents a standstill, at a time when the Bank needs all the clout it can get. For FY 83, we support the U.S. Chamber of Commerce's recommendation, a direct loan figure of $5.7 billion.

As you know, not a single taxpayer dollar goes toward the programs or operations of the Bank. The Bank does not compete with social programs or defense programs. Accordingly, since authorization to borrow and lend money by the Bank costs nothing in and of itself, this is one of those rare instances in which it is more prudent to overestimate need rather than underestimate it. And let me add that we have found that airlines' demand for new equipment to be both unpredictable and volatile. When the pent-up demand for new equipment begins to manifest itself, America had better be ready if it wants its share of the market.

There are some who would argue that higher authorization levels for the Bank aren't needed, and that in fact, the Bank won't be able to use up all the authorization it was granted for FY 82. That may well be the case, but I submit it is the Bank's restrictive policies that have kept it from doing as much business as it might have. We are asking that Congress take a hard look at those policies.

American manufacturers of commercial jet airplanes face serious competition from Airbus Industrie, a consortium which includes the governments of France, Germany and the United Kingdom. Through the central banks of those countries, the development and manufacture of the Airbus A300 has been subsidized to the tune of some $5 billion. Beyond that, a government-owned company such as Airbus has the advantage of government-to-government leverage, which can be a very effective means of selling airplanes. Those two conditions are unique to Airbus, and advantageous as they are, we aren't looking for that kind of involvement with our government. We happen to like our system better -- private industries operating in an environment of free enterprise.

But as you know, on top of subsidies and leverage, Airbus and its owning governments are also subsidizing the sales financing of their airplanes. Last September, the Commonline Agreement was reached among the United States and the governments that own Airbus. Commonline was supposed to put American manufacturers and Airbus on an equal footing when it came to financing. But our own Export-Import Bank has been doing business in ways that exceed the requirements of Commonline, ways that put American manufacturers at a serious disadvantage. Frankly, if the Europeans had done the kinds of things to us that the Ex-Im Bank has been doing, Congress would be screaming bloody murder.

In specific, the Ex-Im Bank's policies have:

-- Established a 2 percent set-up fee for all new loans, which effectively adds 1/2 percent to the interest cost of the loan. Right off the bat, the Bank's policy starts to price American manufacturers out of a competitive position. (Needless to say, Airbus has no such fee.)

-- Turned down loans to developed countries. (Airbus has a very lenient and convenient loan policy.)

-- Insists that to qualify for a loan, an airline that wants to buy a Boeing airplane must be considering a competitive bid from a foreign manufacturer as well. (In virtually all cases, that foreign manufacturer is Airbus. Airbus, on the other hand, is more than happy to finance airline purchases without any hint of competition from Boeing or McDonnell Douglas.)

-- Refused to "grandfather" any loans to foreign carriers who had negotiated for the purchase of Boeing airplanes prior to the Commonline Agreement. (Airbus has been aggressive in "grandfathering" many of its sales agreements with airlines, making loans at interest rates well below the Commonline minimums.)

- Discourages the financing of "follow on" purchases. (This is particularly harmful, in that most customers know they will need assistance in purchasing additional airplanes in the future, and are most reluctant to buy American-made airplanes knowing they may be "abandoned" by the Bank later.)

- Turns down loans for "established" airplanes such as the 747 on the theory that they have no competition. (In fact, various models of the Airbus A300 have competed at one time or another against all U.S. manufactured airplanes, from the short range DC-9 to the long-range 747. The choice of equipment can depend on an airline's route structure and fleet mix, among other things, but as we will see, it can also depend on financing.)

With policies like those, it's little wonder that airlines aren't lined up three deep at the counter, clamoring for Ex-Im Bank loans. Granted, this economy hasn't been kind to anyone, and almost all airlines have been very cautious about making decisions to purchase airplanes. But even taking the economy into account, it is our conclusion that the Bank's policies have discouraged potential customers from going to the trouble of making an application to the Bank. They know it will be difficult, if not impossible.

Let me offer specific examples of the current situation. One Boeing customer had an agreement with a foreign competitor which was "grandfathered" under the Commonline Agreement. Ex-Im policy did not permit an equivalent U.S. offer. The $40 million difference in interest costs during the term of the loan made it easy for the customer to accept the foreign product.

In another instance, we were dealing with an airline that wanted to buy our 747. The Ex-Im Bank, as its policy has been articulated, has so far refused to consider financing on 747s. It now appears likely that this airline will buy Airbus airplanes. Now some may argue that nothing can compete with a 747, but in my book, losing a sale to Airbus suggests just the opposite. If there are going to be Airbus planes on that route, not 747s, that's competition!

In dealing with Airbus, on the other hand, a customer knows he will receive the fullest possible funding under the Commonline Agreement. No restrictive policies. No two percent set-up fee. Hardly any red tape at all.

I want to turn, for just a moment, to the importance of exports on the American economy. Pure and simple, exports create jobs. In things like the manufacture of commercial jet airplanes, $1 billion in export sales creates 22,100 jobs with the manufacturer and its direct suppliers. The effect of those 22,100 aerospace jobholders and the impact of their paychecks on the economy creates another 33,150 jobs as the demands for goods and services are met. That's why it strikes us as ironic when people call the Export-Import Bank "The Boeing Bank". A 747 airplane, for example, is assembled by Boeing in its plant in Everett, Washington. But a 747 consists of 4.5 million parts. Sixty-five percent of the airplane's weight and fifty percent of its value is manufactured by first tier subcontractors and suppliers -- 1,500 of them in 47 states. Tens of thousands of other second tier suppliers also provide parts and equipment. This network of "invisible exporters," as we call them, extends into every community across the economic fabric of this country.

Better still, a loan approved today by the Ex-Im Bank provides jobs today. And yet, most of the money for that loan won't be drawn down until delivery of the airplane takes place -- typically, about 18 months. But the benefit is immediate. With unemployment at 9.5 percent, with 10 and a half million Americans out of work, this is no small consideration.

Some economists, inside government and outside of it, argue that workers who have been squeezed out of one manufacturing job -- for whatever reason -- will find jobs elsewhere, and that this process is ultimately healthy for the economy. We don't agree.

The practical reality of the aerospace business is that the manufacture of commercial jet passenger airliners is a very specialized task. There are only four such major manufacturers in the free world -- three, now that Lockheed is phasing out their commercial jet line. This specialized labor force of highly skilled and trained men and women is not readily or easily absorbed into the rest of the economy. We speak with authority, because we've been there.

During the 1969-1970 "Boeing Bust", there were countless grim tales of skilled men and women performing menial work, because there was no other work to be had. Engineers with PhDs were mowing lawns and running short order kitchens. At that time, unemployment in the two counties around Seattle ran twice the national average -- and it stayed that way for more than two years.

It wasn't until 1974 that the national and the local unemployment rates began to resemble one another.

Virtually every other nation in the world values its skilled technical workers, and makes every effort to keep them active and productive. For the United States to adopt a "sink or swim" policy for aerospace workers is to ignore the danger of someday being without an adequate supply of those skilled and trained workers, simply for the sake of an economic theory.

Recently, officials of the Ex-Im Bank have spoken with pride about their "threefold strategy", targeting resources, negotating to reduce export credit subsidies, and maintaining a sound financial condition. Those are all admirable goals, but I suggest that attempting any of those activities out of the context of real world economics and real world competition is not very practical nor very realistic. To the extent that those activities unilaterally reduce the Bank's capacity to act, they are like unilateral military disarmament -- very risky. As Senator Heinz said a few weeks ago, "That's not using your leverage -- that's dropping out of the race." I happen to agree with Senator Heinz, and heartily endorse his "warchest" bill.

America's export policy has never been a strong one, and there are those who argue that if we've survived and prospered this long with a weak policy, we must be able to endure a little longer with an even weaker one. The fact is, the world is changing rapidly, and our international competitors are gaining strength. We can no longer afford a weak policy.

We are in agreement with many, who believe that the long-term future of international financing cannot be found in governments, whether it be in the subsidy of finance as practiced abroad, or in self-supporting financial institutions such as our own Ex-Im Bank.

But we are convinced that the only way to achieve that future is by negotiation. And we are also convinced that the only way to bring the governments of the world to the bargaining table is to set forth our best bargaining chip. That chip is a strong, aggressive Ex-Im Bank that is not afraid to fight, and not too poor to compete. The American economy, and hundreds of thousands of American workers who depend on exports for their livelihood, deserve no less. And to that end, I congratulate this subcommittee and its members for its interest in exports, and its concern for the Bank.

I thank you for the opportunity to appear before you today on this subject.

## Supplemental Response
by
Malcolm T. Stamper
President
The Boeing Company
to
Senate Subcommittee on Foreign Operations
Senate Appropriations Committee

**Item 1**

You asked whether we could specify how much of our employment reductions to date were due to EXIM Bank policy as opposed to soft world-wide economic conditions.

Responses during the hearing properly indicated that there is no way to provide a statistically correct answer. I recall the analogy made by the gentleman from General Electric: - answering that question was like trying to decide which was the "straw that broke the camel's back". However, I believe that the following information will provide you with additional insight on the issue.

I. The following is based on subjective analyses from our sales organizations. At the conclusion of each sales campaign the salesman files a "win/loss report", which contains a judgment of the key factors affecting the airline's decision.

As a matter of interest I might note that in our win/loss reports we categorize our sales losses into five primary areas:

1. Financing
2. Product characteristics
3. Political factors
4. The business environment
5. All other factors

We typically find that our losses are relatively evenly distributed among these five categories. While each sales result will inevitably involve all of the above factors, we try to assess sales campaign results with respect to which factor was most important to the outcome.

Of sales lost to Airbus Industrie in 1981, financing was named as the number one issue in cases representing 22% of the dollar volume of Airbus wins. Since Airbus Industrie obtained non-U.S. orders in 1981 for approximately $2.3 billion, we therefore estimate that $512 million dollars is directly attributable to inadequate financing for the U.S. proposals. This in turn would translate into 5,653 Boeing jobs and a like number of jobs throughout our supplier network.

Financing was a secondary but still important issue in 18% of our sales losses to Airbus Industrie, valued at an additional $415 million. This would translate into another 4,586 jobs at The Boeing Company, and again, a like number among our suppliers. In all cases these job losses have downstream multiplier effects on the economies of the local communities and the U.S. at large.

It is important to recognize that airlines cannot be expected to be completely candid with our salesmen about their reasons for buying our airplane or that of a competitor. Doing so might reveal information which the airline believes to be proprietary and which they may feel would jeopardize their bargaining position in future negotiations.

And so, while the preceding information falls considerably short of the elements of any statistically precise analysis, and while a salesman's assessment of his losses may certainly be judged as lacking in objectivity, it does represent the best solid information available to us based on actual marketing experience. It also represents information upon which we make our own day-to-day management decisions within The Boeing Company. EXIM financing offered at the limits authorized under the Common Line Agreement might not have won each and every case in which the salesman identified financing as the number one issue. Similarly, EXIM financing at the full limit of the Common Line Agreement might very well have "won the day" in some of the other campaigns in which the salesman's assessment was that financing was a secondary issue.

In summary, we believe approximately 5,000 Boeing jobs and a similar number of supplier jobs were lost in 1981 due to sales losses to Airbus Industrie, which could have been prevented by a more competitive EXIM position. Obviously some of these jobs lost would be reflected in 1981 and some in 1982 employment reductions.

II. We can provide a second perspective on the impact of inadequate EXIM support on jobs lost in the following manner. We recently advised EXIM Bank officials that we estimate our direct loan requirements for FY'83 at approximately $1.5 billion, assuming the bank continues to operate with current targeting policies. At 42.5% coverage, this $1.5 billion would support $3.5 billion in Boeing exports -- this would be 61% of our projected export sales for FY'83.

We indicated to the Bank that, should they obtain adequate authorization to fully support commercial airplane export sales and therefore promote such sales so that we could exploit our marketing opportunities, the FY'83 direct credit forecast could increase to $2.0 billion. The $500 million increase in direct credit requirements would support an estimated increase of $1.1 billion in export sales during FY'83. These potential sales translate into more than 7,600 Boeing jobs, and a similar number among our suppliers. Beyond this, there is the additional impact of the re-order market for each sale, which in time can multiply all of these losses.

We are about to advise the Bank that we are revising our FY'83 forecast to reflect deteriorating economic conditions. That revision indicated a need for $1.1 billion in EXIM direct credit support under existing targeting policies. Applying the resulting 27% reduction in this forecast to jobs lost, we would expect to lose 5,500 jobs in FY'83 due to the effect of EXIM Bank targeting policies. All things considered, then, we see a sustained annual impact of approximately 5,000 jobs lost related to EXIM Bank authorization limits and the Bank's subsequent targeting policies. Our suppliers will experience a similar loss of employmemt, and jobs in our respective communities will also be impacted. And again, there is the additional impact of the reorder market for each sale, which would multiply all of these losses.

**Item 2**

We would also like to supplement our response to a question you raised on inadequate EXIM funding and the Bank's targeting policies and the resulting impact of these issues on U.S. technology leadership and ultimately on the very existence of the U.S. commercial jet industry. EXIM targeting policies stipulate that current production airplanes, specifically the 737-200, 727-200, DC10-30/40, L1011-500, and all 747 models, have no direct foreign competition and are therefore ineligible for direct credit support from EXIM in most if not all situations. This policy ignores the fact that many Lesser Developed Countries (LDCs) must have the financial assistance of exporting nations in order to buy any commercial airplanes, since many LDCs seldom qualify for commercial loans. It is our understanding that the EXIM bank was founded partly to assist American sales to such countries.

The LDCs are learning that they cannot buy products such as the 737 and 747 in many cases because the EXIM Bank will not support these airplanes. At the same time Airbus Industrie has indicated a long term strategy of expanding their product line with all new designs such as the A320, a small short range airplane, and with derivatives of the A300 such as the TA-11, a four-engine long-range airplane. These airplanes will be direct competitors with the 737 and 747. If

EXIM will not support U.S. products, then early entry of these Airbus products will be encouraged by the airlines of the LDCs. Over the long term, airlines of LDCs will see that this is the only way in which they can obtain adequate funding for airplanes to meet their needs.

In addition, because EXIM policy includes the requirement for direct foreign competition, the bank is also providing incentives for airlines from developed countries to encourage Airbus Industrie to develop these new products. Even though the airline may have the financial wherewithall to buy airplanes without the financial assistance of export credit agencies, (and even though they may want to buy U.S. products), airlines may encourage Airbus' development efforts in order to eventually obtain more favorable financing than would be available through commercial sources.

In either of these cases U.S. policy is encouraging new competition which will inevitably erode U.S. export sales. This loss of sales will reduce U.S. industry revenue and the retained earnings, the lifeblood of the reinvestment process which leads to product improvements and the development of new products. Reduced earnings will also constrain re-investment in capital equipment, a key factor in increased productivity.

Products such as the 737, 727 and 747 provided Boeing with the private capital sales base to develop the new technology transports, the 757 and 767. These airplanes will be going into service during 1983. The evolutionary process I have described brings into question U.S. private industry's ability to take similar timely action during the next new product development cycle. Should we encounter financial constraints on our ability to improve existing products and to develop products as they are required by the world's airlines, world aerospace leadership must inevitably pass to Europe. While this scenario may seem doubtful today, today's auto market conditions would have seemed equally incredible 20 years ago.

Even if new financial instruments such as the International Equipment Trust become established (opening private capital markets to all airplane manufacturers and buyers on an equitable basis, thus eliminating the need for government involvement and subsidies in such sales), we will not eliminate entirely the problem of LDCs. Over the long term exporting countries will be required to maintain export credit agencies like the EXIM Bank in order to sell to Lesser Developed Countries in any significant volume. The International Equipment Trust and the access it provides to private capital markets will not be a direct substitute in these cases.

## WESTINGHOUSE ELECTRIC CORP.

### STATEMENT OF GORDON C. HURLBERT, PRESIDENT, POWER SYSTEMS CO., WESTINGHOUSE ELECTRIC CORP.

#### SUPPORT OF EXIMBANK POLICIES

Senator KASTEN. Mr. Gordon Hurlbert.

Mr. HURLBERT. Mr. Chairman, Mr. Kirby, our chief executive officer, would have liked to be here today in person because he feels very strongly about this subject. He asked me to tell you he would have liked to be here, but he could not arrange his travel schedule, but fully supports the testimony that I am about to give.

Westinghouse Electric Corp. manufactures hundreds of products which generate, transmit, control, and utilize electricity. Some of the biggest ones are nuclear steam supply systems, turbines, and big power transformers. We supply other types of electrical equipment to control and use electrical power.

I appreciate this opportunity to testify before your subcommittee and reiterate how important it is for our company and the United States for the Export-Import Bank to have ample direct lending authority and operating policies to support U.S. exporters on a competitive basis.

U.S. exporters today of capital equipment are having to compete in export markets against financing supplied by foreign governments. Westinghouse and other companies do not have the financial resources to compete against countries, as we do against companies.

If Eximbank is able to fulfill a national need for direct export loans and guarantees which are competitive with financing supplied by other governments, Westinghouse and other U.S. electrical equipment manufacturers have a real chance to make export sales which are important to our stockholders, our employees, our subcontractors, and last but not least the Federal Government.

If Eximbank does not have adequate budget authority to cover U.S. export needs and if the Bank is not operated to compete effectively with foreign governments in export financing, U.S. industries, its employees and the Federal Government will lose substantial benefits.

Our request to the Senate and the Congress is this: Do what is necessary to bring about equitable competition in export financing. The ideal goal would be international agreement that no country will finance exports at below market rates.

As you know, such an agreement has not been obtainable up to now. We are not about to start a trade war. We have already been in a very serious trade war for the last 2 years. We have had no agreement on nuclear export financing, nuclear product financing, except for one that we hope that our Government will put together, has tentatively put together on a Mexican job.

The only way to bring other countries into line in our judgment is not to unilaterally disarm, but to show that the United States has the will and the capability to compete, to meet competition head on. We urge you to provide the Export-Import Bank with the resources and congressional urging to meet every foreign export loan with a fully competitive U.S. loan.

I believe if we take this approach in a relatively short period of time we will get the OECD countries back to the negotiating table and arrive at an agreement.

The best way to do this will be to remove the Export-Import Bank from the annual Federal budget. It wasn't there in the first place, it was not set up that way. Let it lend as much as is needed to meet foreign competition.

If Eximbank cannot be removed from the annual budget then I hope you will provide much larger annual lending ceilings for it and give it the leeway necessary.

In saying this let me assure you I am not advocating giveaway lending. All loans made by Eximbank should have reasonable assurance of repayment so that the Bank's excellent history of repayment will be continued.

The subject of export financing has many ramifications. Knowing how busy you are I would like to make a couple of points.

There are several billion dollars of export opportunities coming up in the next few years for heavy electrical equipment, transmission, and transportation equipment where Westinghouse and other U.S. suppliers can compete.

These opportunities are not in the industrialized countries of the world. The Japanese, the Germans, the French, the English, won't take bids from us. The opportunities are in the developing countries of the world. But that market where we do have access is three times the domestic market in the next 5 years.

So, it is crucial to keeping our factories loaded for us to have an opportunity to compete and to be able to compete on an effective basis as far as financing is concerned. We don't have any trouble competing on price, delivery, value of our product, but we can't compete with the governments on financing. Let me give you a couple of examples.

We were offered an opportunity by the Korea Electric Co. to be awarded two nuclear turbine generator units last year, and all we had to do was have financing that was equal to what the French were offering. It is similar to Boeing's situation.

There was no way the customer could pay the premium that was involved in the differential between the French and American financing.

This month I am going to lay off another 250 people at our plant in East Pittsburgh and another 250 at our plant at Lester, Pa., solely because I do not have this order for them to work on at this point in time.

Senator KASTEN. When did you lose that order?

Mr. HURLBERT. About 9 months ago.

Similarly, I was low bidder in Colombia, the preferred supplier for power transformers. In the last 3 months all our Eximbank had to do was to meet German export financing. They refused to do it. The order was awarded to Siemens Co. of West Germany based solely on financing.

We are going to lay off 150 to 200 people in our Munsey, Ind., plant between now and July 4.

It is clear that a lot of countries, including those in which our principal industrial competitors are based, place great value on assisting their exporters. They obviously believe it is good business for their national economy to keep their workers employed on export orders rather than having them have to pay unemployment compensation and other social assistance.

### WHARTON BUSINESS SCHOOL STUDY

The Senator from New Hampshire mentioned a study done by the Wharton Business School. They have recently made an additional study based on $1 billion nuclear export order to evaluate what returns we would get from a dollar of interest equalization. That Wharton study shows that the Federal Government alone would receive $10 of increased taxes and reduced social costs for every $1 of interest equalization, and that if you include the States as well as the Federal Government there is a $13 return for every $1 of interest equalization.

It seems very evident to me that as long as we take the position that we will not be competitive in export financing, it is good business for the foreign countries to subsidize their exports in this manner. Being able to take advantage of export opportunities is critical for our company because of the depressed state of electrical equipment buying by utilities and industrial companies in the United States.

I would like to point out a few characteristics of this type of business, and it is very similar to the aircraft business.

It takes substantial capital investment.

For example, it would cost someone $100 million to reproduce our large turbine plant in Charlotte, N.C. It would cost us $120 million to reproduce our large power transformer plant in Munsey, Ind. Our plants for producing nuclear steam supply systems and other equipment used by utilities would also be very costly to reproduce.

We have already closed up one new, modern factory in Tampa, Fla., because of lack of nuclear business. I submit most of that is totally a nuclear situation and domestic situation, but certainly the two nuclear steam supply systems we also lost in Korea due to lack of export financing intensified that problem.

In addition to supporting the capital facilities, a flow of orders is necessary to keep up the large research and development expenditures that are required for the technical capability to compete long term and provide our domestic utilities with these products. Unless we have adequate foreign orders during the next 5-year period there is no way we can keep the quality and the number of our skilled engineers and craftsmen to remain long-term competitors.

We won't be able to keep it in the United States but what we are going to do, and this is the real tragedy, we are going to continue to compete very vigorously for those markets in the developing countries of the world. And what we will do is we will have to source these products and do some of the design work in those countries where we have subsidiaries or licensees and where the governments welcome an opportunity to give us financing for the content produced in their countries.

The net result will be that long term we are going to have to greatly reduce our manufacturing and engineering forces in the United States, and provide the developing countries with the products from other countries that are willing to supply financing for those exports.

If we do not get a turnaround in the situation for adequate export financing we are going to have to make those decisions in the year 1983. That is serious.

Thank you very much.

Senator **Kasten**. Mr. Hurlbert, thank you very much.

[The statement of Mr. Gordon C. Hurlbert and accompanying report are as follows:]

## PREPARED STATEMENT OF GORDON C. HURLBERT
## PRESIDENT, POWER SYSTEMS COMPANY

## WESTINGHOUSE ELECTRIC CORPORATION

Mr. Chairman and Members of the Subcommittee:

I am Gordon C. Hurlbert, President, Westinghouse Power Systems Company. Bob Kirby, our Chairman and Chief Executive Officer very much wanted to be here in person, but could not re-arrange his travel schedule. He asked me to appear in his behalf, which I am pleased to do.

We manufacture hundreds of products which generate, transmit, control and utilize electricity. The most prominent of these are nuclear steam supply systems, large steam turbine generators, large power transformers, and large power circuit breakers. They are major products required by electric utilities to generate electricity and transmit it to population centers for use.

In addition to the products we make for sale to electric utilities, our company manufactures drives and controls for mass transit systems, elevators, electric motors, and industrial controls and hundreds of other products for industrial and commercial use.

We appreciate this opportunity to testify before your subcommittee to reiterate how important it is to our company and to the United States for the Export-Import Bank to have ample direct lending authority and adequate loan guarantee authority.

U.S. exporters of capital equipment are having to compete in the export market against financing supplied by foreign governments. Westinghouse and other U.S. companies do not have the financial resources to meet this competition; we need effective support from our own government.

If Ex-Im is able to fulfill the national need for direct export loans and guarantees which are competitive with financing supplied by other governments, Westinghouse and other U.S. manufacturers will have a real chance to make export sales which are important to our stockholders, to our employees, to our many suppliers and subcontractors, and last but not least, to the Federal Government.

If Ex-Im Bank does not have adequate budget authority to cover U.S. exporter needs, and if the bank is not operated to compete effectively with foreign governments' export financing, U.S. industry, its employees and the Federal Government will lose substantial benefits.

Our request to the Senate and the Congress is: Do what is necessary to bring about equitable competition in export financing.

The ideal goal would be international agreement that no country will finance exports at below market rates. As you know, such an agreement has not been obtainable up to now. The only way to bring other countries into line, I believe, is to show them that the U.S. will not be outbid. We urge you to provide Eximbank with the resources and Congressional urging to meet every foreign export loan with a fully competitive U.S. loan. I believe if we take this approach for a relatively short time, our European, Japanese and other industrial competitors will be convinced that they cannot prevail with subsidized export loans.

The best way to bring this about would be to remove Ex-Im Bank from the annual Federal Budget. It wasn't there in the first place. Let it lend as much as is needed to meet foreign competition.

If Ex-Im cannot be removed from the annual budget, then we hope you will provide much larger annual lending ceilings for it -- give it all the leeway necessary. In saying this, let me assure you I am not advocating give-away lending. All loans made by Ex-Im should have reasonable assurance of repayment, so that the Bank's excellent history of repayments will be continued.

The subject of export financing has many ramifications, and knowing how busy Senators are I'll try to stick to the highlights.

There are several billions of dollars of export opportunities coming up in the next few years for Westinghouse and other U.S. manufacturers of electrical equipment. These opportunities are not in the industralized countries of Europe or Japan, since most of those countries practice rigid nationalism in their procurement. They effectively boycott U.S.-made electrical equipment.

The largest potential market for this equipment open to us today is in developing countries. Of a total world population of 4,400 million, 3,300 million people live in these countries. As they strive for more industrialization and more economic development, they turn to manufacturers in the industrialized nations. Other industrialized country governments have recognized this evolving market and enthusiastically aid their producers in putting together attractive financing packages in order to consummate sales to developing countries. By so doing, they have helped to insure the economic viability of their home industries. Furthermore, they are obtaining a foothold in markets where three-quarters of the world's people live and from which they will not easily be dislodged.

We can compete with any foreign manufacturer of our type products on the basis of product value, reliability, delivery, price and other commercial factors. But we cannot compete with the governments of France, Britain, Germany, Canada, Italy, Japan, Brazil, Spain, and others who provide official export financing at below market rates for the customers of their own manufacturers.

Let me give you a couple of examples:

Westinghouse tried hard to get the contract for the turbine-generators for Nuclear Units 9 & 10 of Korea Electric Company when they were negotiated last year. But we lost to our main competitor, a French manufacturer. The U.S. financing offered by Ex-Im Bank consisted of a direct credit equal to 75 per cent of the export value at an interest rate of 10-3/4 per cent per annum and an anticipated PEFCO loan for 10 per cent of the export value to be guaranteed by Eximbank. The expected interest rate of the PEFCO loan was at 15 per cent per annum at the time of award. The package provided for 7 years' grace on the principal (during construction of the plant) and 15 years' repayment. An additional 2 per cent credit application fee, payable up-front, would also have to have been paid to Ex-Im Bank by the customer.

Our best information was that the French financing consisted of a direct credit equal to 85 per cent of the export value at an interest rate of 7.6 per cent per annum.

Assuming a base price of $80 million for each of the competing offers, the difference between these two financing packages was over $27 million in additional interest costs that the customer would have had to pay Ex-Im Bank (and PEFCO) over the life of the loan. In addition, the customer would have had to pay over one million dollars as the 2 per cent credit application fee before the loan would have become effective.

To further dramatize these differentials, let us consider the overseas sale of a nuclear power plant with a base price of $1 billion. Let us assume a U.S. financing package equal to the 65 per cent of the export value covered by an Ex-Im direct credit at an interest rate of 12 per cent per annum and a PEFCO credit covering another 20 per cent of the export value at an interest rate of 16 per cent per annum with repayment over 15 years with 7 years' grace on the principal.

Let us also assume a French financing package for 85 per cent of the export value at an interest rate of 7.6 per cent per annum.

The difference between these two packages is $499 million in additional interest cost over the life of the loan that the customer would have to pay by choosing the Ex-Im Bank package. Also, the customer would have to pay an additional $13 million for a 2 per cent credit application fee before the loan could become effective.

It is clear that a lot of countries, including those in which our principal industrial competitors are based, place great value on assisting their exporters. They obviously believe it is good business for their national economies to keep their workers employed on export orders rather than having to pay them unemployment compensation and other social assistance.

It seems to me this would also be good business for the United States Government.

As you know, for more than 45 years the Export-Import Bank has paid all its own administrative expenses and borrowing costs and has made a profit. It has paid a billion dollars in dividends to the U.S. Treasury and also has accumulated earnings of more than two billion dollars which have been added to its own capital. This fiscal year ExIm confronts its first loss from operations, attributable obviously to having to borrow at higher rates of interest than its recent lending rates. These lending rates are essential in order for the Bank to compete with lending by foreign governments at below market rates.

Recognizing the dilemma raised by Ex-Im's need to equalize interest rates in order to be competitive, our company has had two studies made by Wharton Econometric Forecasting Associates, Inc. to ascertain whether it is beneficial to the United States for ExIm Bank to extend credit to foreign customers at rates of interest below rates at which ExIm Bank must borrow.

Both studies showed substantial benefit, not merely to the U.S. economy in general, but clear benefit to the U.S. Government.

The first study, made in 1981, related to a multi-million dollar job to build a new subway in Argentina. The study showed a nine to one advantage to the U.S. Government for each dollar of interest differential Ex-Im would absorb.

The second study in 1982 covered loans for the export of a two-unit nuclear power plant.

The 1982 study showed that with a typical Exim Bank loan of 65 per cent of export value bearing an interest rate of as low as 9 per cent per annum, there would be a net gain to the U.S. Government equivalent to $10 return for every $1 net interest cost to the Federal Government, taking into account the net federal revenues only. The ratio for the entire U.S. economy would be almost 13 to 1.

The gains would result from increases in tax revenues collected as a result of new economic activity and reduction of government expenditures for unemployment compensation and other social payments.

The net government gain from below market lending shown by these studies probably explains the motivation for the many foreign governments to support exports as they do.

I am providing copies of the Wharton studies which you may want to include in your hearing record.

Being able to take advantage of export opportunities is critical for our company because of the depressed state of electrical equipment buying by utilities and industrial companies in the United States.

I would like to point out a few of the characteristics of our industry. In order to produce heavy electrical equipment, large and very expensive manufacturing facilities are required. For example, we estimate it would cost nearly $200 million dollars to reproduce our large turbine plant in Charlotte, North Carolina. It would probably cost $120 million dollars to reproduce our large power transformer plant in Muncie, Indiana. Our plants for producing nuclear steam supply systems and other equipment used by electric utilities, would also be very costly to reproduce.

Also of great concern is the necessity to maintain the skilled work force required to sustain a viable manufacturing capability in the United States.

Only a flow of orders can provide the funds for covering the high overheads of these plants and for maintaining teams of specialized engineers and highly skilled, experienced production workers. Orders are also vital to support the research and development which is essential for keeping our products competitive. The day will come in a few years when U.S. electric utilities will have to expand their generating and transmission capacity. We believe it is important, not only to Westinghouse and its employees but also to American utilities and to our national security, to have viable U.S. manufacturers of large electrical equiment when that time arrives, and not to leave the U.S. entirely dependent on foreign equipment suppliers.

It is against the backdrop of these considerations that the importance of adequate, competitive export financing should be viewed.

Restated, the predatory financing practices of governments in Europe and Japan have grown to such magnitude that American exporters are being forced to compete in a war they alone can't win. A fully funded, fully competitive Ex-Im Bank is essential if the United States is to remain in the fight.

# WESTINGHOUSE CORPORATION
# NUCLEAR SYSTEMS

## Net Impact on the Government of Export-Import Bank Financing

Draft Final Report

Prepared for:

The Westinghouse Corporation

by

Wharton Econometric Forecasting Associates, Inc.

August 1981

## EXECUTIVE SUMMARY

Given that securing Export-Import Bank financing is essential to finalizing the sale of nuclear steam supply systems and related turbine generators by The Westinghouse Corporation, the results presented in this report demonstrate that the U.S. government can expect to recover via increased net revenues more than $3 for every $1 of direct cost incurred by the Export-Import Bank. Depending on interest rates and financing arrangements, the returns to the government could run even higher. Wharton EFA, Inc. has utilized its Wharton Annual and Industry Forecasting Model to estimate the effects of the export sale on U.S. economic activity and on government receipts and expenditures. The Wharton Annual Model translated the Westinghouse export sales into increases in domestic production, employment, income, and government receipts.

Since outlays and receipts occur from 1981 to as late as 2003, for purposes of comparison, all outlays and receipts have been discounted back to millions of 1981 dollars using the three to five-year government bond rate as the discount factor. The production of the nuclear systems and related turbine equipment generates an increase in employment, a reduction in unemployment, and an increase in earned (and thereby taxable) income.

The reduction in unemployment reduces government outlays for unemployment compensation and other "safety net" programs, while the increase in employment, and thereby earned income, increases U.S. government tax receipts (personal taxes, social security taxes, indirect taxes, and corporate taxes). The net results of these reductions in outlays and increases in revenues over the 1981 to 1989 period is a gain of 200 million 1981 dollars for the U.S. government. Over the same period, state and local governments attain a net increase of revenues of 50 million U.S. dollars due to the same type of outlay reductions and receipt increases experienced by the U.S. government.

## METHODOLOGY

To evaluate the net impact on the Government of the nuclear systems contract financed by the Export-Import Bank, it was necessary to perform the following analyses:

1. to determine the economic impacts of the contract on the government by simulating the Wharton Annual and Industry Forecasting Model.
2. to determine the net borrowing cost incurred by Export-Import Bank by computing the difference between the interest paid by the Export-Import Bank and the interest received by them from the loan.
3. to compute the net impact on the Government of the loan by discounting to 1981 dollars the changes in federal and state and local governments surplus and subtracting the net borrowing cost of the Export-Import Bank loan discounted to 1981 dollars.

Wharton EFA received data from The Westinghouse Corporation on their estimates of their annual sales in 1980 dollars as well as their pre-production employment under the contract. This information formed the basis for a macroeconomic model simulation. Prior to running the simulation, this data was adjusted for inflation by the appropriate Wharton Model price deflator based in 1980 dollars and then deflated to 1972 dollars for consistency with the Model.

It was then necessary to evaluate the Export-Import Loan options for the nuclear systems contract. The Westinghouse Corporation provided us with information as to the interest rate and repayment schedule under three Export-Import Bank financing options: 30 semi-annual repayments starting in 1988 at a 13 percent annual interest rate, at an 11 percent annual interest rate, and at a 9 percent annual interest rate. On the basis of the drawdown schedule provided by The Westinghouse Corporation, we adjusted the annual drawdown by the Wharton model price deflators, which were also used to adjust the sales schedule for the model simulation. The revised drawdown schedule was then amortized according to the schedules we were provided with. To determine the borrowing cost of the Export-Import Bank, it was assumed that the Bank would borrow at the 3-5 year government bond rate at the time of each drawdown.* This removed the complexity of analyzing the actual Export-Import Bank borrowing process. Our assumption provides a "worst case" outlook in which they must borrow at the time of the drawdown and refinance each drawdown every five years until it is fully amortized.** From the resulting interest cost of borrowing the total interest payments received from the loan were subtracted to obtain the net borrowing cost to the Export-Import Bank.

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*Choice of the 3-5 year U.S. government bond rate was based on discussions with staff members at the Export-Import Bank. The Wharton forecast for this rate is used in our primary scenarios. An alternate scenario was also completed, which assumed that the Export-Import Bank borrowing rate was fixed at the maximum level forecast by Wharton for the 1981-1989 period—13.3 percent.

**The EXIMBANK Borrowing Schedule is assumed to follow the drawdown and repayment schedule of the Westinghouse loan.

Finally, the change in the federal and state and local government surpluses or deficits and the net borrowing cost to the Export-Import Bank were discounted to 1981 dollars by using the Wharton Model forecast of the 3-5 year government bond rate used in the calculation of the Export-Import Bank borrowing cost.

The net interest cost to the Export-Import Bank of the nuclear systems and related equipment sales depends on the type of loan program employed. If a program of a nine percent lending rate with 85 percent financing is adopted, the net interest cost to the Export-Import Bank is 27 million 1981 dollars, yielding a net gain to the U.S. government of 180 million 1981 dollars. Utilizing the program with an 11 percent rate produces a net interest gain to the Export-Import Bank of 3 million 1981 dollars, since the Bank's borrowing rate is projected to drop below 11% in 1988 and falls below 9% in 1990. This implies that the U.S. government will obtain a net gain of 210 million 1981 dollars. A 13 percent lending rate produces interest earning to the Export-Import Bank of 32 million dollars, with net gain to the U.S. government of 240 million 1981 dollars.

The following table summarizes the benefits, costs, and net gains to the U.S. government over the entire loan program period and over the 1981-84 period.

## SUMMARY OF BENEFITS, COST, AND NET GAINS TO U.S. AND STATE PLUS LOCAL GOVERNMENTS

Total Project—Nuclear Steam Supply Systems Plus Turbine Generators
85% EXIM Bank Financing

| | Millions of 1981 Dollars | |
|---|---|---|
| | Entire Loan Period | 1981 to 1984 |
| Net Increase in U.S. Government Receipts Minus Outlays | 209.3 | 50.0 |
| Net Interest Cost to Export-Import Bank (9% Loan) | 26.7 | 3.8 |
| Net Gain to U.S. Government with 9% Loan | 182.6 | 46.2 |
| Net Interest Cost to Export-Import Bank (11% Loan) | -2.8 | 0.9 |
| Net Gain to U.S. Government with 11% Loan | 212.1 | 49.1 |
| Net Interest Cost to Export-Import Bank (13% Loan) | -32.4 | 0.1 |
| Net Gain to U.S. Government with 13% Loan | 241.7 | 49.9 |
| Net Increase in State plus Local Government Receipts minus Outlays | 54.0 | 12.1 |

The large net gains to the U.S. government generated by the production of the nuclear systems can be explained in part by accounting for the "ripple" effects on the economy, which magnify the initial production expenditures. Based on expenditure information supplied by Westinghouse and adjusted by the appropriate Wharton Model price deflators, a total of 180 million 1972 dollars of additional production will be sold by the Westinghouse Corporation over the years 1981 through 1989. Over this same period, these expenditures will result in a Gross National Product increase of 350 million 1972 dollars and the creation of new jobs totaling more than 17,000 man years. The rise in GNP implies an increase in overall economic activity of twice the initial Westinghouse expenditures. The nominal dollar increase in GNP (not adjusted for inflation) is more than 850 billion dollars over 1981 through 1989. Of this, the U.S. government receives about 25 percent via increases in tax revenues alone over the same period, while state plus local governments receive 9 percent via increased tax revenues.

## PRESENTATION OF YEARLY RESULTS

Tables 1-6 present yearly values for the benefits, costs, and net gains to the U.S. government of the Export-Import Bank's support of the Westinghouse export of nuclear systems and related equipment (hereafter nuclear systems). All dollar figures are stated in millions of 1981 dollars. The Wharton Annual Model was used to estimate the influence of the production and sale of nuclear systems on the U.S. economy and on government receipts and outlays over the period 1981 to 1989. Beyond 1989, all remaining transactions involve loan repayments and would have negligible (if any) effect on U.S. economic activity.

The negative net interest cost to the Export-Import Bank of each of loans (9, 11, and 13%) during the 1990s and beyond results from the 3-5 year government bond rate declining below the lending rate. The net interest cost to the Export-Import Bank remains positive even after the current year borrowing rate drops below the lending rate because we have assumed that the Export-Import Bank commits to pay the 3-5 year government bond rate prevailing in the year that a drawdown occurs for five full years. This assumption probably results in an overstatement of net interest cost to the Export-Import Bank. However, as can easily be seen from the year-by-year net gains to the U.S. government, the favorable results to the U.S. government are not dependent on the borrowing cost to the Export-Import Bank falling below the lending rate. The U.S. government enjoys a net gain in 1981 under the nine percent loan program even though the 3-5 year government bond rate is 13.3 percent.

Tables 13-15 present the major economic impacts of the nuclear systems project and its two components on an annual basis over the period 1981-1989. The direct real 1972 dollar outlays by Westinghouse result in an ultimate increase to total real Gross National Product which, on average, is twice the amount of the direct outlay. This multiplier effect results from the chain of transactions that follow in the wake of the initial outlay. A multiplier value slightly in excess of two on average is similar to the size of the multiplier associated with increased military expenditures on hardware or increases in producers durable equipment purchases.

The decrease in state plus local government tax revenues during the last year of the simulation occurs because of the procedure used to calculate tax receipts for state and local governments in the Wharton Annual and Industry Forecasting Model. Effective state plus local government tax rates are adjusted (calculated) in the model so as to move these government units towards a balanced budget position over time. These government units, unlike the federal government, typically cannot run large deficits for a period of years, nor are they likely to run large surpluses. Therefore, after the upsurge in revenues during the early years, effective rates are adjusted downward to bring receipts and expenditures back toward equality.

The projected macroeconomic inpact of the Export-Import Bank loan is slightly reduced by assuming industry prices are unchanged by the nuclear systems project. (See Tables 16-18) Net increase in U.S. government receipts-outlays drops between 1 and 2 percent. State and local gains drop by about 11-14 percent. Employment gains are reduced by about 12 percent (from 19,770 to 17,450 man-years) while real GNP gains are reduced from $386.3 billion to $340.2 billion—also about 12 percent.

The macroeconomic impacts of the two projects (NSSS vs. Turbine) are basically the same whether they are considered together or separately. (Nuclear Steam Supply Systems are about 62-63% of total cost and/or benefits.) For example, with floating 3-5 year bond rates and industry prices allowed to change, present value of the change in federal surplus is $131.0 million (NSSS), $78.1 million (Turbine) and $209.3 million for the two projects jointly. The joint projects' discounted value to the U.S. government differs from the sum of the two individual projects by only $200,000.

Because the increase in U.S. government receipts-outlays ($200 million) is so much greater than the interest cost (no more than $55 million) total gain to the federal government (change in surplus minus interest cost) is not greatly increased by reducing the extent of financing from 85 to 65 percent. Net interest gains or losses incurred by the EXIM Bank are reduced between 20 and 25 percent under the 65 vs. 85 percent financing option which results in only a 3 to 4 percent increase in total net gains to the federal government.

If interest costs stay high (3-5 year bond rate holding at 13.3 percent) rather than falling over the next decade, the government interest costs are considerably increased, but present value of change in U.S. government receipts minus expenditure drops by only 2 to 3 percent. (See Tables 7-12) The total discounted gain to the federal government (change in deficit minus interest costs) drops by less than $50 million even in the most pessimistic case (13 percent lending rate, 85 percent financing, industry prices fixed). In this case, net gains to the U.S. government drop from $238.6 million to $196.5 million. Over all possible financing schemes and economic scenarios, the lowest ratio of benefits (discounted increase in federal surplus) to costs (discounted interest costs) is 3.64 to 1 (for 85 percent financing, 9 percent loan rate, high 3-5 year loan rate of 13.3 percent, and industry prices unaffected by the project).

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### Tables 1-6

Net Impact on Federal Government of Export-Import Financing
Floating 3-5 Year Bond Rate

| | |
|---|---|
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| **Table 2** | Nuclear Steam Supply Systems Plus Turbine Generator Units<br>65% EXIM Bank Financing |
| **Table 3** | Nuclear Steam Supply Systems (NSSS) Project<br>85% EXIM Bank Financing |
| **Table 4** | Nuclear Steam Supply Systems (NSSS) Project<br>65% EXIM Bank Financing |
| **Table 5** | Turbine Generator Units (TG) Project<br>85% EXIM Bank Financing |
| **Table 6** | Turbine Generator Units (TG) Project<br>65% EXIM Bank Financing |

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Net Impact on Federal Government of Export-Import Bank Financing
Fixed 3-5 Year Bond Rate

| | |
|---|---|
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| **Table 9** | Nuclear Steam Supply Systems (NSSS) Project<br>85% EXIM Bank Financing |
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### Tables 13-15

Economic Impacts

| | |
|---|---|
| **Table 13** | Nuclear Steam Supply Systems Plus Turbine Generator Units |
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### Tables 16-18

Alternative Economic Impacts
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| | |
|---|---|
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| **Table 17** | Nuclear Steam Supply Systems (NSSS) Project |
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# TABLE 1

## NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS

85% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 6.7 | 9.1 | 10.3 | 28.0 | 53.2 | 57.4 | 35.4 | 12.2 | 1.0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 209.3 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.5 | 1.0 | 2.5 | 7.0 | 13.4 | 14.9 | 9.8 | 4.0 | -.2 | | | | | | | | | | | | | | | 54.0 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .3 | .6 | .9 | 2.0 | 3.8 | 5.2 | 5.8 | 5.1 | 3.0 | 2.1 | .5 | -.3 | -.5 | -.5 | -.5 | -.4 | -.4 | -.3 | -.2 | -.1 | -.1 | .0 | .0 | 26.7 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .2 | .3 | .4 | 1.0 | 1.7 | 2.2 | 2.3 | 1.9 | .9 | -.4 | -1.6 | -2.1 | -2.0 | -1.8 | -1.5 | -1.2 | -1.0 | -.8 | -.6 | -.4 | -.2 | -.1 | .0 | -2.0 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | -.1 | .0 | -.4 | -.9 | -1.3 | -1.3 | -1.9 | -2.9 | -3.7 | -3.9 | -3.5 | -3.0 | -2.5 | -2.1 | -1.6 | -1.3 | -.9 | -.6 | -.4 | -.1 | .0 | -32.4 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 6.4 | 8.5 | 9.5 | 25.9 | 49.4 | 52.1 | 29.6 | 7.1 | -2.0 | -2.1 | -.5 | .3 | .5 | .5 | .5 | .4 | .4 | .3 | .2 | .1 | .1 | .0 | .0 | 182.6 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 6.5 | 8.8 | 9.9 | 26.9 | 51.5 | 55.2 | 33.1 | 10.4 | .1 | .4 | 1.6 | 2.1 | 2.0 | 1.8 | 1.5 | 1.2 | 1.0 | .8 | .6 | .4 | .2 | .1 | .0 | 212.1 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 6.7 | 9.1 | 10.4 | 28.0 | 53.6 | 58.3 | 36.7 | 13.6 | 3.0 | 2.9 | 3.7 | 3.9 | 3.5 | 3.0 | 2.5 | 2.1 | 1.6 | 1.3 | .9 | .6 | .4 | .1 | .0 | 241.7 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | |

## TABLE 2

## NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS
65% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 6.7 | 5.1 | 10.3 | 28.0 | 53.2 | 57.6 | 35.4 | 12.2 | 1.0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 209.3 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.5 | 1.0 | 2.5 | 7.0 | 13.4 | 14.8 | 9.8 | 4.0 | -.2 | | | | | | | | | | | | | | | 54 0 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .2 | .4 | .7 | 1.6 | 2.9 | 4.0 | 4.4 | 3.9 | 2.9 | 1.6 | .4 | -.2 | -.4 | -.4 | -.4 | -.3 | -.3 | -.2 | -.2 | -.1 | -.1 | .0 | .01 | 20.4 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .1 | .2 | .3 | .8 | 1.3 | 1.6 | 1.7 | 1.4 | .7 | -.3 | -1.2 | -1.6 | -1.5 | -1.4 | -1.1 | -.9 | -.8 | -.6 | -.4 | -.3 | -.2 | -.1 | .01 | -2.2 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | -.1 | .0 | -.3 | -.7 | -1.0 | -1.0 | -1.9 | -2.2 | -2.9 | -3.0 | -2.7 | -2.3 | -1.9 | -1.6 | -1.3 | -1.0 | -.7 | -.5 | -.3 | -.1 | .01 | -24.0 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 6.4 | 4.7 | 9.7 | 26.4 | 50.3 | 53.4 | 30.9 | 8.3 | -1.9 | -1.6 | -.4 | .2 | .4 | .4 | .4 | .3 | .3 | .2 | .2 | .1 | .1 | .0 | .01 | 188.9 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 6.5 | 4.9 | 10.0 | 27.2 | 51.9 | 55.7 | 33.6 | 10.8 | .3 | .3 | 1.2 | 1.5 | 1.5 | 1.4 | 1.1 | .9 | .8 | .6 | .4 | .3 | .2 | .1 | .01 | 211.8 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 6.7 | 5.1 | 10.4 | 28.0 | 53.5 | 58.1 | 36.4 | 13.3 | 2.5 | 2.2 | 2.9 | 3.0 | 2.7 | 2.3 | 1.9 | 1.6 | 1.3 | 1.0 | .7 | .5 | .3 | .1 | .01 | 234.1 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | |

## TABLE 3

## NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT
### 85% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | .6 | 5.6 | 10.0 | 22.8 | 34.7 | 25.7 | 18.1 | 11.0 | 1.9 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 131.1 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | .2 | 1.2 | 2.3 | 5.6 | 8.0 | 6.0 | 5.3 | 3.4 | -.5 | | | | | | | | | | | | | | | 33.1 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .0 | .3 | .6 | 1.6 | 2.7 | 3.3 | 3.9 | 3.0 | 2.2 | 1.1 | .6 | -.1 | -.3 | -.4 | -.3 | -.3 | -.2 | -.2 | -.1 | -.1 | -.1 | .0 | .01 | 16.7 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .0 | .2 | .3 | .8 | 1.2 | 1.4 | 1.4 | 1.1 | .4 | -.5 | -.9 | -1.2 | -1.2 | -1.1 | -.9 | -.8 | -.6 | -.5 | -.3 | -.2 | -.1 | .0 | .01 | -1.7 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | -.1 | .0 | -.3 | -.5 | -.7 | -.8 | -1.4 | -2.0 | -2.2 | -2.3 | -2.1 | -1.9 | -1.6 | -1.3 | -1.0 | -.8 | -.6 | -.4 | -.2 | -.1 | .01 | -20.1 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | .6 | 5.3 | 9.4 | 21.2 | 32.0 | 22.4 | 14.6 | 8.0 | -.6 | -1.1 | -.4 | .1 | .3 | .3 | .3 | .3 | .2 | .2 | .1 | .1 | .1 | .0 | .01 | 114.4 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | .6 | 5.3 | 9.8 | 22.0 | 33.5 | 24.3 | 16.7 | 10.7 | 1.1 | .5 | .9 | 1.2 | 1.2 | 1.1 | .9 | .8 | .6 | .5 | .3 | .2 | .1 | .0 | .01 | 132.0 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | .6 | 5.6 | 10.1 | 22.9 | 35.0 | 26.2 | 18.8 | 12.6 | 2.9 | 2.0 | 2.2 | 2.3 | 2.1 | 1.9 | 1.6 | 1.3 | 1.0 | .8 | .6 | .4 | .2 | .1 | .01 | 151.2 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | |

## TABLE 4

### NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT
65% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | .6 | 5.6 | 10.0 | 22.8 | 34.7 | 25.7 | 18.1 | 11.8 | 1.5 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 131.1 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | .2 | 1.2 | 2.7 | 5.6 | 8.0 | 6.0 | 5.3 | 3.4 | -.9 | | | | | | | | | | | | | | | 33.1 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .0 | .2 | .4 | 1.2 | 2.1 | 2.5 | 2.6 | 2.3 | 1.7 | .0 | .3 | -.1 | -.2 | -.3 | -.2 | -.2 | -.2 | -.1 | -.1 | -.1 | .0 | .0 | .0 | 12.8 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .0 | .1 | .2 | .6 | .9 | 1.1 | 1.1 | .9 | .3 | -.4 | -.7 | -.9 | -.9 | -.8 | -.7 | -.6 | -.5 | -.4 | -.3 | -.2 | -.1 | .0 | .0 | -1.3 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | -.1 | .0 | -.2 | -.4 | -.5 | -.6 | -1.0 | -1.5 | -1.7 | -1.8 | -1.6 | -1.4 | -1.2 | -1.0 | -.8 | -.6 | -.4 | -.3 | -.2 | -.1 | .0 | -15.4 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | .6 | 5.4 | 9.6 | 21.6 | 32.7 | 23.2 | 15.4 | 9.5 | -.1 | -.0 | -.3 | .1 | .2 | .3 | .2 | .2 | .2 | .1 | .1 | .1 | .0 | .0 | .0 | 118.3 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | .6 | 5.5 | 9.8 | 22.2 | 33.8 | 24.7 | 17.0 | 11.0 | 1.2 | .4 | .7 | .9 | .9 | .8 | .7 | .6 | .5 | .4 | .3 | .2 | .1 | .0 | .0 | 132.4 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | .6 | 5.6 | 10.1 | 22.9 | 34.9 | 26.1 | 18.6 | 12.4 | 2.6 | 1.5 | 1.7 | 1.8 | 1.6 | 1.4 | 1.2 | 1.0 | .8 | .6 | .4 | .3 | .2 | .1 | .0 | 146.5 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.89 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | |

## TABLE 5

### TURBINE GENERATOR UNITS (TG) PROJECT
### 85% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact On Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 5.9 | -.5 | .2 | 5.1 | 18.5 | 31.6 | 17.3 | .4 | -.5 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 78.1 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.3 | -.2 | .2 | 1.4 | 4.0 | 8.0 | 4.9 | .4 | .3 | | | | | | | | | | | | | | | 20.8 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .3 | .3 | .2 | .4 | 1.1 | 2.0 | 2.4 | 2.1 | 1.6 | 1.0 | .1 | -.2 | -.2 | -.2 | -.2 | -.2 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .01 | 10.0 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .2 | .1 | .1 | .2 | .5 | .8 | .9 | .8 | .5 | .0 | -.7 | -.9 | -.8 | -.7 | -.6 | -.5 | -.4 | -.3 | -.2 | -.1 | -.1 | .0 | .01 | -1.1 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .0 | .0 | -.1 | -.6 | -.6 | -.5 | -.6 | -.9 | -1.5 | -1.6 | -1.4 | -1.3 | -.9 | -.8 | -.6 | -.5 | -.3 | -.2 | -.1 | .0 | .01 | -12.3 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 5.7 | -.8 | .0 | 4.7 | 17.4 | 29.7 | 15.0 | -1.7 | -2.1 | -1.0 | -.1 | .2 | .2 | .2 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | .0 | .01 | 68.1 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 5.8 | -.7 | .1 | 4.9 | 18.0 | 30.9 | 16.5 | -.4 | -1.0 | .0 | .7 | .9 | .8 | .7 | .6 | .5 | .4 | .3 | .2 | .1 | .1 | .0 | .01 | 79.2 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 5.9 | -.6 | .2 | 5.1 | 18.6 | 32.1 | 17.9 | .9 | .1 | .9 | 1.5 | 1.6 | 1.4 | 1.3 | .9 | .8 | .6 | .5 | .3 | .2 | .1 | .0 | .01 | 90.4 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | [illegible] | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.5 | 7.6 | 7.6 | 7.6 | |

## TABLE 6

## TURBINE GENERATOR UNITS (TG) PROJECT
65% EXIM Bank Financing, Floating 3-5 Year Bond Rate

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 5.9 | -.5 | .2 | 9.1 | 18.5 | 31.6 | 17.3 | .4 | -.5 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 78.1 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.3 | -.2 | .2 | 1.6 | 4.6 | 8.0 | 4.5 | .6 | .3 | | | | | | | | | | | | | | | 20.9 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .2 | .2 | .2 | .3 | .8 | 1.5 | 1.8 | 1.6 | 1.3 | .0 | .1 | -.2 | -.2 | -.1 | -.1 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .01 | 7.6 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .1 | .1 | .1 | .2 | .4 | .6 | .7 | .6 | .4 | .0 | -.3 | -.7 | -.6 | -.5 | -.4 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | .0 | .01 | -0.9 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .0 | .0 | -.1 | -.2 | -.3 | -.4 | -.4 | -.7 | -1.1 | -1.2 | -1.0 | -.9 | -.7 | -.6 | -.5 | -.4 | -.3 | -.2 | -.1 | .0 | .01 | -9.4 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 5.7 | -.7 | .1 | 8.8 | 17.7 | 30.1 | 15.5 | -1.2 | -1.7 | -.8 | -.1 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .01 | 70.5 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 5.8 | -.6 | .1 | 9.0 | 18.1 | 31.1 | 16.7 | -.2 | -.9 | .0 | .3 | .7 | .6 | .5 | .4 | .4 | .3 | .2 | .2 | .1 | .1 | .0 | .01 | 79.0 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 5.9 | -.6 | .2 | 9.1 | 18.6 | 32.0 | 17.6 | .8 | .0 | .7 | 1.1 | 1.2 | 1.0 | .9 | .7 | .6 | .5 | .4 | .3 | .2 | .1 | .0 | .01 | 87.5 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.7 | 12.1 | 13.2 | 12.4 | 12.1 | 12.0 | 10.0 | 9.3 | 8.5 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | |

# TABLE 7

## NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS
## 85% EXIM Bank Financing, 3-5 Year Bond Rate Set to Maximum (13.3%)

Net Impact on Federal Government of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 6.7 | 5.1 | 10.2 | 27.6 | 52.1 | 55.6 | 33.9 | 11.5 | .9 | .0 | .0 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 203.7 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.5 | 1.0 | 2.9 | 7.0 | 13.2 | 14.3 | 9.4 | 3.0 | -.1 | | | | | | | | | | | | | | | 52.5 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .3 | .6 | 1.0 | 2.2 | 4.4 | 6.5 | 7.3 | 6.5 | 5.6 | 4.6 | 3.9 | 3.0 | 2.4 | 1.9 | 1.5 | 1.1 | .9 | .6 | .4 | .3 | .1 | .0 | .0 | 55.1 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .2 | .3 | .5 | 1.2 | 2.3 | 3.5 | 3.9 | 3.5 | 3.0 | 2.5 | 2.0 | 1.6 | 1.3 | 1.0 | .8 | .6 | .5 | .3 | .2 | .1 | .1 | .0 | .0 | 29.6 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .1 | .2 | .3 | .5 | .5 | .5 | .4 | .3 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | 4.1 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 6.4 | 4.5 | 9.2 | 25.5 | 47.8 | 49.1 | 26.6 | 5.0 | -4.7 | -4.6 | -3.8 | -3.0 | -2.4 | -1.9 | -1.5 | -1.1 | -.9 | -.6 | -.4 | -.3 | -.1 | .0 | .0 | 148.6 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 6.5 | 4.8 | 9.7 | 26.5 | 49.8 | 52.1 | 30.0 | 8.0 | -2.1 | -2.5 | -2.0 | -1.6 | -1.3 | -1.0 | -.8 | -.6 | -.5 | -.3 | -.2 | -.1 | -.1 | .0 | .0 | 174.1 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 6.7 | 5.0 | 10.1 | 27.5 | 51.8 | 55.1 | 33.4 | 11.0 | .5 | -.3 | -.3 | -.2 | -.2 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | 199.6 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

## TABLE 8

## NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS
65% EXIM Bank Financing, 3-5 Year Bond Rate Set to Maximum (13.3%)

Net Impact on Federal Government Of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 6.7 | 5.1 | 10.2 | 27.6 | 52.1 | 55.6 | 35.9 | 11.5 | .9 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 203.7 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.5 | 1.0 | 2.5 | 7.0 | 13.2 | 14.3 | 9.4 | 3.0 | -.1 | | | | | | | | | | | | | | | 52.5 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .3 | .4 | .7 | 1.7 | 3.3 | 5.0 | 5.6 | 5.0 | 4.3 | 3.6 | 2.9 | 2.3 | 1.9 | 1.5 | 1.1 | .9 | .7 | .5 | .3 | .2 | .1 | .0 | .01 | 42.2 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .1 | .2 | .4 | .9 | 1.8 | 2.7 | 3.0 | 2.7 | 2.3 | 1.9 | 1.5 | 1.2 | 1.0 | .8 | .6 | .5 | .4 | .3 | .2 | .1 | .1 | .0 | .01 | 22.6 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .1 | .1 | .2 | .4 | .4 | .4 | .3 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 3.1 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 6.4 | 4.7 | 9.5 | 26.0 | 48.8 | 50.7 | 30.3 | 6.5 | -3.4 | -3.6 | -2.9 | -2.3 | -1.9 | -1.5 | -1.1 | -.9 | -.7 | -.5 | -.3 | -.2 | -.1 | .0 | .01 | 161.5 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 6.5 | 4.9 | 9.8 | 26.7 | 50.3 | 53.0 | 32.9 | 8.8 | -1.4 | -1.9 | -1.5 | -1.2 | -1.0 | -.8 | -.6 | -.5 | -.4 | -.3 | -.2 | -.1 | -.1 | .0 | .01 | 181.1 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 6.7 | 5.1 | 10.1 | 27.5 | 51.9 | 55.3 | 35.5 | 11.1 | .6 | -.3 | -.2 | -.2 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 200.6 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

## TABLE 9

### NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT
### 85% EXIM Bank Financing, 3-5 year Bond Rate Set to Maximum (13.3%)

Net Impact on Federal Government Of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | .6 | 9.6 | 9.9 | 22.6 | 34.0 | 24.9 | 17.9 | 11.1 | 1.4 | .0 | .0 | .3 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 127.5 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | .2 | 1.2 | 2.3 | 5.5 | 8.6 | 6.9 | 5.1 | 3.2 | -.9 | | | | | | | | | | | | | | | 32.2 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .0 | .3 | .8 | 1.7 | 3.1 | 3.9 | 4.3 | 3.9 | 3.5 | 2.9 | 2.3 | 1.9 | 1.5 | 1.2 | .9 | .7 | .5 | .4 | .3 | .2 | .1 | .0 | .0 | 34.4 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .0 | .2 | .4 | .9 | 1.7 | 2.1 | 2.3 | 2.1 | 1.9 | 1.5 | 1.3 | 1.0 | .8 | .6 | .5 | .4 | .3 | .2 | .1 | .1 | .0 | .0 | .0 | 18.5 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .1 | .1 | .2 | .3 | .3 | .3 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 2.5 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | .6 | 9.3 | 9.2 | 20.8 | 30.9 | 21.0 | 13.1 | 7.2 | -2.1 | -2.9 | -2.3 | -1.9 | -1.5 | -1.2 | -.9 | -.7 | -.5 | -.4 | -.3 | -.2 | -.1 | .0 | .0 | 93.1 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | .6 | 9.5 | 9.5 | 21.6 | 32.4 | 22.8 | 15.8 | 9.0 | -.5 | -1.5 | -1.3 | -1.0 | -.8 | -.6 | -.5 | -.4 | -.3 | -.2 | -.1 | -.1 | .0 | .0 | .0 | 109.0 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | .6 | 9.6 | 9.9 | 22.4 | 33.8 | 24.6 | 17.0 | 10.8 | 1.1 | -.2 | -.2 | -.1 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 125.0 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

## TABLE 10

## NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT

**65% EXIM Bank Financing, 3–5 Year Bond Rate Set to Maximum (13.3%)**

Net Impact on Federal Government Of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | .6 | 9.6 | 9.9 | 22.6 | 34.0 | 24.9 | 17.3 | 11.1 | 1.4 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 127.5 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | .2 | 1.2 | 2.3 | 5.6 | 8.6 | 6.5 | 5.1 | 3.2 | -.5 | | | | | | | | | | | | | | | 32.2 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .0 | .2 | .6 | 1.3 | 2.4 | 3.0 | 3.3 | 3.0 | 2.6 | 2.2 | 1.9 | 1.4 | 1.1 | .9 | .7 | .5 | .4 | .3 | .2 | .1 | .1 | .0 | .0 | 26.3 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .0 | .1 | .3 | .7 | 1.3 | 1.6 | 1.8 | 1.6 | 1.4 | 1.2 | 1.0 | .8 | .6 | .5 | .4 | .3 | .2 | .2 | .1 | .1 | .0 | .0 | .0 | 14.1 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .0 | .1 | .2 | .2 | .2 | .2 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 1.9 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | .6 | 9.4 | 9.3 | 21.2 | 31.6 | 21.9 | 14.1 | 8.1 | -1.3 | -2.2 | -1.9 | -1.4 | -1.1 | -.9 | -.7 | -.5 | -.4 | -.3 | -.2 | -.1 | -.1 | .0 | .0 | 101.1 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | .6 | 9.5 | 9.6 | 21.9 | 32.8 | 23.3 | 15.6 | 9.5 | .0 | -1.2 | -1.0 | -.8 | -.6 | -.5 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | .0 | .0 | .0 | 113.4 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | .6 | 9.6 | 9.9 | 22.5 | 33.9 | 24.7 | 17.1 | 10.8 | 1.2 | -.2 | -.1 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 125.6 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

## TABLE 11

## TURBINE GENERATOR UNITS (TG) PROJECT
**85% EXIM Bank Financing, 3-5 Year Bond Rate Set to Maximum (13.3%)**

Net Impact on Federal Government Of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 5.9 | -.5 | .2 | 5.1 | 18.1 | 30.7 | 16.6 | .3 | -.4 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 76.0 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.3 | -.2 | .2 | 1.4 | 4.5 | 7.8 | 4.3 | .6 | .3 | | | | | | | | | | | | | | | 20.2 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .3 | .3 | .2 | .4 | 1.2 | 2.5 | 3.1 | 2.6 | 2.2 | 1.8 | 1.4 | 1.2 | .9 | .7 | .6 | .4 | .3 | .2 | .2 | .1 | .1 | .0 | .01 | 20.7 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .2 | .1 | .1 | .2 | .7 | 1.4 | 1.6 | 1.4 | 1.2 | 1.0 | .8 | .6 | .5 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .0 | .0 | .01 | 11.1 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .0 | .0 | .1 | .2 | .2 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 1.5 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 5.7 | -.8 | .0 | 4.6 | 16.9 | 28.1 | 13.6 | -2.3 | -2.6 | -1.8 | -1.4 | -1.2 | -.9 | -.7 | -.6 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | .0 | .01 | 55.3 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 5.8 | -.7 | .1 | 4.8 | 17.4 | 29.3 | 15.0 | -1.1 | -1.6 | -1.0 | -.8 | -.6 | -.5 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | -.1 | .0 | .0 | .01 | 64.9 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 5.9 | -.6 | .2 | 5.0 | 18.0 | 30.5 | 16.4 | .2 | -.6 | -.1 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .01 | 74.5 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

## TABLE 12

## TURBINE GENERATOR UNITS (TG) PROJECT
**65% EXIM Bank Financing, 3-5 Year Bond Rate Set to Maximum (13.3%)**

Net Impact on Federal Government Of Export-Import Bank Financing
Summary of Results—Discounted Present Value in Million 1981 Dollars

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGE IN FEDERAL GOVT SURPLUS OR DEFICIT | 5.9 | -.5 | .2 | 5.1 | 18.1 | 30.7 | 16.6 | .3 | -.4 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 76.0 |
| CHANGE IN STATE&LOCAL GOVT SURPLUS OR DEFICIT | 1.3 | -.2 | .2 | 1.4 | 4.5 | 7.8 | 4.3 | .6 | .3 | | | | | | | | | | | | | | | 20.2 |
| BORROWING COST TO EXIM BANK 9% LENDING RATE | .2 | .2 | .2 | .3 | .9 | 1.9 | 2.3 | 2.0 | 1.7 | 1.4 | 1.1 | .9 | .7 | .6 | .4 | .3 | .2 | .2 | .1 | .1 | .0 | .0 | .0 | 16.0 |
| BORROWING COST TO EXIM BANK 11% LENDING RATE | .1 | .1 | .1 | .2 | .5 | 1.0 | 1.3 | 1.1 | .9 | .7 | .6 | .5 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | 8.5 |
| BORROWING COST TO EXIM BANK 13% LENDING RATE | .0 | .0 | .0 | .0 | .1 | .1 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 1.2 |
| NET IMPACT ON FEDERAL GOVT 9% LENDING RATE (LINE 1 - LINE 3) | 5.7 | -.7 | .1 | 4.7 | 17.2 | 28.7 | 14.3 | -1.7 | -2.1 | -1.4 | -1.1 | -.9 | -.7 | -.6 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | .0 | .0 | .0 | 60.1 |
| NET IMPACT ON FEDERAL GOVT 11% LENDING RATE (LINE 1 - LINE 4) | 5.8 | -.6 | .1 | 4.9 | 17.6 | 29.6 | 15.4 | -.7 | -1.3 | -.7 | -.6 | -.5 | -.4 | -.3 | -.2 | -.2 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | 67.5 |
| NET IMPACT ON FEDERAL GOVT 13% LENDING RATE (LINE 1 - LINE 5) | 5.9 | -.6 | .2 | 5.1 | 18.0 | 30.5 | 16.4 | .2 | -.5 | -.1 | -.1 | -.1 | -.1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | 74.8 |
| DISCOUNT FACTOR (1981=1.0) | 1.00 | 1.13 | 1.28 | 1.46 | 1.65 | 1.87 | 2.12 | 2.40 | 2.72 | 3.08 | 3.49 | 3.96 | 4.48 | 5.08 | 5.76 | 6.52 | 7.39 | 8.38 | 9.49 | 10.76 | 12.19 | 13.81 | 15.65 | |
| 3-5 YEAR GOVT BOND RATE (%) | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | |

TABLE 13

NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS

ECONOMIC IMPACTS

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| **Westinghouse Project Expenditures (millions 1972 dollars)** | 4.6 | 4.1 | 7.8 | 22.3 | 44.8 | 50.4 | 32.9 | 12.2 | 2.4 | 181.5 |
| **Change in Gross National Product (millions 1972 dollars)** | 8.8 | 7.8 | 16.5 | 46.2 | 92.3 | 107.3 | 74.2 | 30.1 | 3.1 | 386.4 |
| **Ratio of Change in GNP to Project Expenditures (line 2/line 1)** | 1.9 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.3 | 2.5 | 1.3 | 2.1 |
| **Change in Gross National Product (millions nominal dollars)** | 18.8 | 14.7 | 32.9 | 103.3 | 214.6 | 240.9 | 127.5 | -11.9 | -88.8 | 652.2 |
| **Change in Federal Gov't Surplus or Deficit (millions nominal dollars)** | 6.7 | 5.8 | 13.1 | 40.2 | 86.0 | 103.9 | 71.8 | 27.5 | 2.5 | 357.5 |
| **Change in Federal Gov't Revenues (millions nominal dollars)** | 5.9 | 4.1 | 9.6 | 31.0 | 64.5 | 70.7 | 35.3 | -3.1 | -19.6 | 198.3 |
| **Change in Federal Gov't Expenditures (millions nominal dollars)** | -.8 | -1.7 | -3.5 | -9.2 | -21.5 | -33.2 | -36.5 | -30.6 | -22.1 | -159.2 |
| **Change in Unemployment Insurance Benefits (millions nominal dollars)** | -1.0 | -1.2 | -2.5 | -7.0 | -15.3 | -21.0 | -18.7 | -11.2 | -4.3 | -82.3 |
| **Change in State and Local Gov't Surplus or Deficit (millions nominal dollars)** | 1.5 | 1.2 | 3.2 | 10.1 | 21.7 | 26.7 | 19.8 | 9.1 | -.4 | 93.0 |
| **Change in State and Local Gov't Revenues (millions nominal dollars)** | 1.6 | .9 | 2.6 | 8.5 | 17.3 | 18.5 | 7.9 | -4.9 | -14.9 | 37.3 |
| **Change in State and Local Gov't Expenditures (millions nominal dollars)** | .1 | -.3 | -.6 | -1.7 | -4.5 | -8.2 | -11.9 | -14.0 | -14.6 | -55.7 |
| **Change in Total Employment (man-years)** | 303 | 385 | 697 | 1785 | 3693 | 4906 | 4301 | 2628 | 1074 | 19772 |

### TABLE 14
### NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT
ECONOMIC IMPACTS

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| Westinghouse Project Expenditures (millions 1972 dollars) | .5 | 4.1 | 7.8 | 18.2 | 29.3 | 22.8 | 16.0 | 11.5 | 2.4 | 112.6 |
| Change in Gross National Product (millions 1972 dollars) | .9 | 8.1 | 15.6 | 37.9 | 60.9 | 49.8 | 37.6 | 25.1 | 3.4 | 239.2 |
| Ratio of Change in GNP to Project Expenditures (line 2/line 1) | 1.7 | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.4 | 2.2 | 1.4 | 2.1 |
| Change in Gross National Product (millions nominal dollars) | 1.8 | 17.2 | 33.2 | 84.7 | 138.0 | 98.4 | 61.0 | 24.7 | -43.2 | 415.8 |
| Change in Federal Gov't Surplus or Deficit (millions nominal dollars) | .6 | 6.4 | 12.7 | 32.8 | 56.1 | 46.6 | 36.7 | 26.5 | 3.8 | 222.4 |
| Change in Federal Gov't Revenues (millions nominal dollars) | .5 | 5.3 | 9.8 | 25.2 | 40.9 | 27.6 | 17.4 | 8.6 | -9.4 | 125.9 |
| Change in Federal Gov't Expenditures (millions nominal dollars) | -.1 | -1.1 | -2.9 | -7.6 | -15.2 | -19.0 | -19.3 | -18.0 | -13.2 | -96.4 |
| Change in Unemployment Insurance Benefits (millions nominal dollars) | -.1 | -1.0 | -2.3 | -5.8 | -10.5 | -10.9 | -9.7 | -7.5 | -3.0 | -50.8 |
| Change in State and Local Gov't Surplus or Deficit (millions nominal dollars) | .2 | 1.4 | 2.9 | 8.1 | 14.2 | 12.2 | 10.8 | 7.6 | -1.3 | 56.2 |
| Change in State and Local Gov't Revenues (millions nominal dollars) | .1 | 1.3 | 2.5 | 6.8 | 11.0 | 7.0 | 4.1 | -.3 | -9.4 | 23.3 |
| Change in State and Local Gov't Expenditures (millions nominal dollars) | .0 | -.1 | -.4 | -1.3 | -3.2 | -5.2 | -6.6 | -7.9 | -8.1 | -32.9 |
| Change in Total Employment (man-years) | 29 | 282 | 628 | 1488 | 2563 | 2625 | 2236 | 1659 | 729 | 12239 |

## TABLE 15
## TURBINE GENERATOR UNITS (TG) PROJECT
### ECONOMIC IMPACTS

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Westinghouse Project Expenditures (millions 1972 dollars) | 4.1 | .0 | .0 | 4.1 | 15.5 | 27.6 | 16.9 | .7 | 68.9 |
| Change in Gross National Product (millions 1972 dollars) | 7.8 | -.3 | .8 | 8.3 | 31.3 | 57.3 | 36.4 | 4.9 | 146.6 |
| Ratio of Change in GNP to Project Expenditures (line 2/line 1) | 1.9 | - | - | 2.0 | 2.0 | 2.1 | 2.2 | - | 2.1 |
| Change in Gross National Product (millions nominal dollars) | 16.8 | -2.5 | -0.3 | 18.8 | 77.0 | 142.9 | 67.3 | -36.6 | 283.3 |
| Change in Federal Gov't Surplus or Deficit (millions nominal dollars) | 5.9 | -.6 | .3 | 7.4 | 29.9 | 57.3 | 35.2 | .8 | 136.2 |
| Change in Federal Gov't Revenues (millions nominal dollars) | 5.2 | -1.2 | -.2 | 5.9 | 23.7 | 43.2 | 18.1 | -11.8 | 82.8 |
| Change in Federal Gov't Expenditures (millions nominal dollars) | -.7 | -.6 | -.5 | -1.5 | -6.2 | -14.1 | -17.1 | -12.7 | -53.4 |
| Change in Unemployment Insurance Benefits (millions nominal dollars) | -.9 | -.2 | -.2 | -1.2 | -4.8 | -10.1 | -9.0 | -3.8 | -30.2 |
| Change in State and Local Gov't Surplus or Deficit (millions nominal dollars) | 1.3 | -.3 | .3 | 2.0 | 7.5 | 14.5 | 9.1 | 1.4 | 35.8 |
| Change in State and Local Gov't Revenues (millions nominal dollars) | 1.4 | -.5 | .1 | 1.7 | 6.3 | 11.6 | 3.9 | -4.7 | 19.8 |
| Change in State and Local Gov't Expenditures (millions nominal dollars) | .1 | -.2 | -.2 | -.4 | -1.2 | -2.9 | -5.2 | -6.1 | -16.0 |
| Change in Total Employment (man-years) | 269 | 101 | 65 | 296 | 1132 | 2278 | 2064 | 969 | 7173 |

## TABLE 16

## NUCLEAR STEAM SUPPLY SYSTEMS PLUS TURBINE GENERATOR UNITS

ALTERNATIVE ECONOMIC IMPACTS
INDUSTRY PRICES HELD AT BASELINE SOLUTION RATES

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| Westinghouse Project Expenditures (millions 1972 dollars) | 4.6 | 4.1 | 7.8 | 22.3 | 44.8 | 50.4 | 32.9 | 12.2 | 2.4 | 181.5 |
| Change in Gross National Product (millions 1972 dollars) | 8.9 | 6.9 | 14.7 | 43.4 | 85.8 | 96.4 | 61.1 | 19.6 | -3.4 | 333.3 |
| Ratio of Change in GNP to Project Expenditures (line 2/line 1) | 1.9 | 1.7 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.6 | -1.4 | 1.8 |
| Change in Gross National Product (millions nominal dollars) | 16.7 | 13.9 | 34.2 | 102.2 | 211.7 | 252.7 | 174.4 | 66.3 | -1.3 | 870.8 |
| Change in Federal Gov't Surplus or Deficit (millions nominal dollars) | 6.4 | 5.6 | 13.0 | 39.1 | 83.6 | 102.1 | 72.3 | 28.6 | 2.2 | 353.0 |
| Change in Federal Gov't Revenues (millions nominal dollars) | 5.2 | 4.3 | 10.7 | 31.7 | 66.4 | 79.3 | 54.1 | 19.8 | .5 | 271.9 |
| Change in Federal Gov't Expenditures (millions nominal dollars) | -1.2 | -1.4 | -2.3 | -7.5 | -17.2 | -22.8 | -18.2 | -8.7 | -1.7 | -81.1 |
| Change in Unemployment Insurance Benefits (millions nominal dollars) | -1.0 | -1.1 | -2.3 | -6.6 | -14.4 | -19.0 | -15.9 | -8.6 | -2.5 | -71.4 |
| Change in State and Local Gov't Surplus or Deficit (millions nominal dollars) | 1.4 | 1.1 | 2.9 | 8.9 | 19.3 | 24.4 | 18.5 | 7.8 | -2.6 | 81.7 |
| Change in State and Local Gov't Revenues (millions nominal dollars) | 1.1 | .7 | 2.7 | 7.9 | 16.4 | 20.6 | 16.0 | 7.3 | -2.3 | 70.4 |
| Change in State and Local Gov't Expenditures (millions nominal dollars) | -.3 | -.4 | -.2 | -1.0 | -2.8 | -3.8 | -2.5 | -.5 | .3 | -11.3 |
| Change in Total Employment (man-years) | 300 | 355 | 629 | 1670 | 3451 | 4485 | 3752 | 2111 | 695 | 17448 |

## TABLE 17

## NUCLEAR STEAM SUPPLY SYSTEMS (NSSS) PROJECT

ALTERNATIVE ECONOMIC IMPACTS
INDUSTRY PRICES HELD AT BASELINE SOLUTION RATES

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| **Westinghouse Project Expenditures (millions 1972 dollars)** | .5 | 4.1 | 7.8 | 18.2 | 29.3 | 22.8 | 16.0 | 11.5 | 2.4 | 112.6 |
| Change in Gross National Product (millions 1972 dollars) | .8 | 7.8 | 13.9 | 35.1 | 55.6 | 42.1 | 30.4 | 19.0 | -1.8 | 203.0 |
| Ratio of Change in GNP to Project Expenditures (line 2/line 1) | 1.6 | 1.9 | 1.8 | 1.9 | 1.9 | 1.8 | 1.9 | 1.7 | -.7 | 1.8 |
| Change in Gross National Product (millions nominal dollars) | 1.6 | 15.7 | 32.5 | 83.9 | 140.0 | 115.4 | 92.2 | 64.9 | 4.8 | 551.0 |
| Change in Federal Gov't Surplus or Deficit (millions nominal dollars) | .6 | 6.1 | 12.5 | 32.0 | 54.9 | 46.3 | 36.5 | 26.1 | 3.3 | 218.4 |
| Change in Federal Gov't Revenues (millions nominal dollars) | .5 | 4.9 | 10.4 | 26.1 | 43.8 | 35.8 | 28.1 | 20.1 | 2.8 | 172.4 |
| Change in Federal Gov't Expenditures (millions nominal dollars) | -.1 | -1.2 | -2.1 | -6.4 | -11.1 | -10.4 | -8.4 | -6.0 | -.6 | -46.0 |
| Change in Unemployment Insurance Benefits (millions nominal dollars) | -.1 | -1.0 | -2.1 | -5.4 | -9.6 | -9.4 | -8.1 | -6.0 | -1.6 | -43.3 |
| Change in State and Local Gov't Surplus or Deficit (millions nominal dollars) | .2 | 1.3 | 2.6 | 7.2 | 12.7 | 11.2 | 9.6 | 6.0 | -2.4 | 48.4 |
| Change in State and Local Gov't Revenues (millions nominal dollars) | .0 | 1.0 | 2.4 | 6.5 | 11.1 | 1.0 | 8.9 | 5.6 | -2.0 | 43.5 |
| Change in State and Local Gov't Expenditures (millions nominal dollars) | -.1 | -.4 | -.2 | -.7 | -1.6 | -1.3 | -.7 | -.4 | .5 | -4.9 |
| **Change in Total Employment (man-years)** | 22 | 270 | 572 | 1379 | 2356 | 2311 | 1899 | 1349 | 466 | 10624 |

### TABLE 18

### TURBINE GENERATOR UNITS (TG) PROJECT

ALTERNATE ECONOMIC IMPACTS
INDUSTRY PRICES HELD AT BASELINE SOLUTION RATES

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| **Westinghouse Project Expenditures (millions 1972 dollars)** | 4.1 | .0 | .0 | 4.1 | 15.5 | 27.6 | 16.9 | .7 | 68.9 |
| **Change in Gross National Product (millions 1972 dollars)** | 7.9 | -1.0 | -.1 | 7.2 | 28.8 | 52.4 | 28.6 | -1.5 | 122.3 |
| **Ratio of Change in GNP to Project Expenditures (line 2/line 1)** | 1.9 | - | - | 1.8 | 1.9 | 1.9 | 1.7 | -2.1 | 1.8 |
| **Change in Gross National Product (millions nominal dollars)** | 14.8 | -2.0 | 2.6 | 20.5 | 74.7 | 140.4 | 86.1 | 5.9 | 343.1 |
| **Change in Federal Gov't Surplus or Deficit (millions nominal dollars)** | 5.7 | -.6 | .6 | 7.2 | 28.8 | 55.6 | 35.5 | 2.1 | 134.9 |
| **Change in Federal Gov't Revenues (millions nominal dollars)** | 4.6 | -.7 | .9 | 6.5 | 23.9 | 44.8 | 27.7 | 1.5 | 109.3 |
| **Change in Federal Gov't Expenditures (millions nominal dollars)** | -1.1 | -.1 | .4 | -.7 | -4.9 | -10.8 | -7.8 | -.5 | -25.6 |
| **Change in Unemployment Insurance Benefits (millions nominal dollars)** | -.9 | -.1 | -.1 | -1.0 | -4.5 | -9.3 | -7.3 | -2.2 | -25.4 |
| **Change in State and Local Gov't Surplus or Deficit (millions nominal dollars)** | 1.2 | -.1 | .2 | 1.6 | 6.3 | 12.9 | 8.6 | 1.3 | 32.1 |
| **Change in State and Local Gov't Revenues (millions nominal dollars)** | 1.0 | -.3 | .5 | 1.8 | 5.7 | 11.1 | 7.6 | 2.3 | 29.6 |
| **Change in State and Local Gov't Expenditures (millions nominal dollars)** | -.3 | -.2 | .3 | .1 | -.6 | -1.8 | -1.0 | .9 | -2.5 |
| **Change in Total Employment (man-years)** | 266 | 75 | 25 | 247 | 1036 | 2092 | 1759 | 664 | 6164 |

## GENERAL ELECTRIC CO.

### STATEMENT OF WILLIAM DURKA, MANAGER, INTERNATIONAL TRADE POLICY OPERATION, GENERAL ELECTRIC CO., ON BEHALF OF JOHN F. BURLINGAME, VICE CHAIRMAN OF THE BOARD AND EXECUTIVE OFFICER

Mr. DURKA. Mr. Chairman, Mr. Burlingame is not able to be here this afternoon. With your permission, Mr. Chairman, I will present his statement.

My name is William J. Durka, manager of the General Electric Co. international trade policy operation. We appreciate the subcommittee's invitation to participate in these hearings on U.S. export financing policy, especially as it relates to the Export-Import Bank.

The Congress, the executive branch, and the U.S. export community have for well over a year been conducting an intensive and spirited dialog on the Eximbank; on why we have it; on how much operating authority the Bank should have; on what it costs; on how it relates to the Federal budget; and overall, on how good is the Bank—on its costs and benefits to our country.

### GENERAL AGREEMENT ON SOME ISSUES

As this hearing demonstrates, the dialog is still going on. A few issues remain disputed, but as a result of this past year's prolonged discussions, it is fair to say that general agreement now exists on the following:

One, the United States continues to have an urgent export imperative.

The U.S. trade deficit will probably be greater this year than 1981's deficit of almost $40 billion. Although Commerce Department spokesmen now see a trend that may keep this year's deficit below last year's, economists in general expect an increase to somewhere in the $40 to $45 billion range.

Ironically, part of the reason for this negative evaluation is the expected economic upturn later this year, leading to increases in imports of oil and manufactured goods, while exports will remain sluggish, largely because of the adverse impact of the strong dollar, especially on manufactured exports.

In other words, we badly need all the exports we can get.

Second, I think there is general agreement that foreign competition is and will continue to be tougher than ever. Because of world recessionary conditions, the pressure for exports is increasing in all major trading countries, while the total amount of foreign trade is actually declining. Every significant trading country will be fighting hard to increase its share of what may be a smaller total trade volume.

Third, in certain product areas, export sales by U.S. firms depend on Eximbank financing assistance. These are mainly the "big ticket" capital goods areas—aircraft, power generating equipment, locomotives, et cetera—where, because of aggressive foreign governmental concessionary financing practices—export financing has increasingly become a key determinant of export competitiveness.

The testimony of Mr. Krist which reported the results of the financing review clearly corroborates what I have just said.

The financing terms of foreign goverments in aid of their exporters in these product areas cannot be competitively matched by private financing facilities—hence, the need for the Eximbank.

Over the past year, wide agreement has developed as to the need for the Bank. This recognition had to overcome the fact that the Bank was—and still is, to a surprisingly large extent—not a well understood institution. There really is no comfortable place of the Eximbank in our basic doctrines about free enterprise, the traditional American separation of business and Government, our concepts about free/fair trade.

What we have had to do is to recognize, to appreciate, that the Eximbank is a defense mechanism, something we wish we didn't need, operating in an area vital to our national economic life, but usually encountered and evaluated only by those forced to call upon it for help and assistance. Such an institution, as we well know, is likely to be underrated or badly regarded.

However, in our judgment, during this past year a broad consensus has been developing as to the need for a strong Eximbank. Last winter the AFL-CIO Executive Council recognized its need in view of the domestic employment impact of foreign subsidized competition to U.S. exports.

The National Governors International Trade and Foreign Relations Committee is supporting additional and adequate authority for the Bank for fiscal 1983. And it appears to us that there exists a broad level of support for the Bank in both Houses of Congress. We just a few minutes ago in this hearing have seen evidence of that.

Fourth, when the Eximbank debate began, there were those who tried to argue that Eximbank was merely the "accustomed privilege" of a few "fat cat" companies like Boeing and General Electric, so that if Eximbank operating authority was reduced, these "fat cats" could easily take care of themselves.

It is misunderstandings of this kind that give special importance to hearings such as this one, to enable the facts to become better known.

It should be recognized that these "big ticket" product areas where the Eximbank is critically needed are also the product areas where world markets are necessary to maintain the economies of scale on which U.S. technological leadership depends.

It should therefore not be at all surprising that the number of prime contractors is relatively small. But these prime contractors are only the short neck of a big bottle. Behind them are thousands of firms who go to foreign market through these prime contractors. These firms are of all sizes, big and little, in every State, with thousands of workers.

### GE TURBINE BUSINESS GROUP

The General Electric Turbine Business Group, just to take one example, has around 11,000 suppliers and vendors. Overall, General Electric's exports involving the Eximbank are made with around 25,000 suppliers and vendors, located in all 50 States. The same kind of contractor-supplier relationship is of course true of Boeing and the other exporters in this area.

There is an additional highly important aspect to the fact that so many exporters who especially need Eximbank assistance are high-technology firms. The U.S. share of high-technology exports to industrialized countries is declining.

There are various reasons, but the principal one is that other major developed countries have focused on high-technology industries and services as new markets with enormous future growth potentials and therefore they are pursuing ambitious and aggressive policies to give dominant positions to their own firms.

In recognition of this serious trend, the U.S. Government has requested that trade in high-technology goods and services and the emerging protectionist practices be put on the agenda at the forthcoming November meeting of GATT ministers so that new GATT negotiations can be launched to promote free/fair trade conditions.

The obvious point here, today, in the Eximbank context, is the imperative need for the United States to provide adequate Eximbank assistance in this area, both to enable our high-technology firms to match the concessionary financing packages that foreign governments are providing to their firms and to give the U.S. Government badly needed leverage in the GATT negotiations.

The high-technology field is one where the United States absolutely must maintain its leadership. In fact, we already have some lost ground we should regain.

Fifth, there appears to be general agreement that until the recent cutbacks in its operating authority and competitiveness, the Eximbank has been an effective defense mechanism and its operations significantly increased U.S. exports.

### EFFECTIVENESS

First, as to its effectiveness. In fiscal year 1981, the Bank made $5 billion in loans to support $8.6 billion in exports and $7.9 billion in guarantees and insurance to support an additional $10.2 billion in exports, for a total in supported exports of $18.8 billion.

On the basis of the ratio used by the Department of Commerce—that is, that each $1 billion of exports supports about 31,000 jobs—the Bank's 1981 operations helped maintain over 580,000 jobs.

Second, as to the question of whether the U.S. would have had those 1981 exports anyway, even without the Eximbank's assistance.

There has been considerable discussion on the issue of the Bank's "additionality." That is, an export is called "additional" if it would not have been made except for the Bank's support, because the foreign competitor was offering concessionary financing and private financing facilities were not available or could not have matched the foreign financing arrangement.

In other words, the concept of "additionality" is a useful test of the need for the Bank. A recent Treasury Department study which examined the Bank's fiscal year 1978 activities—and which, in our judgment, was very conservatively put together—concluded that the probability was greater than 70 percent that the exports supported by the Bank's lending programs were "additional."

Such a favorable statistical finding in a conservative and disinterested analysis indicates that the Bank is needed and is substantially fulfilling its purpose.

In spite of the Bank's past effectiveness and "additionality," we think it is fair to say that, as a result of responsible studies and surveys that have recently been released and with which we are all familiar, there should now be general agreement in the Congress, in the executive branch, and in the public at large that the cutbacks in the Eximbank's operating authority for fiscal year 1982 have caused the United States to lose a significant amount of export business to foreign competitors, with of course a concomitant loss of a large number of U.S. jobs.

It is of course also fair to add that these losses in exports and jobs will continue into the future and will get worse if the Eximbank's direct lending authorization level is further reduced.

It is at this point in the analysis of the Eximbank—the point where we ask why have we allowed these important losses to occur—that agreement becomes disagreement.

The position of those who defend the restrictions on the Eximbank is of course well known. The dominant element is the view that the huge size of the Federal deficits and the huge extent of Federal borrowings in U.S. capital markets do not allow for a larger role for the Eximbank. In other words, the argument is that we simply cannot afford a stronger Eximbank.

It appears to us that this view is based on two misconceptions: First, as to how the Eximbank relates to the Federal budget, and second, as to its impact on U.S. capital markets.

## OPERATION OF EXIMBANK

To explain, I shall briefly describe the nature of the Bank and how it operates.

First, the Eximbank is a bank. It lends money, which is repaid. Its loss record has been exceptionally good.

Second, the Eximbank does not spend taxpayer money. It receives no congressional appropriation. Its funds come from its capital, its reserves, its banking operations, and its borrowings.

Originally, because of how it operates, the Eximbank was not included in the Federal budget. We don't have time now to go into how it first got into the budget, then out, then back in again. Suffice it to say, the Bank now is in the Federal budget, but in a very unusual way.

In fact, some experts continue to question whether it should be in the budget. Senator Heinz has just recently introduced S. 2600, the Export-Import Bank Restructuring Act of 1982, which would remove the net lending outlays of the Bank from the budget.

In any event, and this is a very significant fact about the Bank which very few people seem to know, the dollar figure in the Federal budget for the Bank is simply an estimate of the Bank's cash flow for the year; that is, the positive or negative difference between the Bank's estimated revenues—that is, all the money that comes in, from any source: Eximbank borrowings, repayments of previous customer loans, interest on previous customer loans, and receipts of customer loan commitment fees and insurance premiums, and the Bank's estimated expenses—that is all the money that goes out: Repayments of Eximbank borrowings, actual disbursements on customer loan commitments, actual claims paid on guarantees and insurance, interest paid on Eximbank borrowings, and administrative expenses.

Obviously, changing this dollar figure does not affect Government spending as we usually understand that concept.

The budgetary process applicable to the Eximbank can be explained approximately as follows:

The Congress determines, for each fiscal year, the total dollar amount of direct customer loans the Bank can authorize, and the total dollar amount of guarantees and insurance it can agree to. Those figures constitute the operating authorization levels for the Bank.

Then, so far as the Federal budget is concerned, an estimate is made as to how much money will actually be paid out by the Bank during the year in question pursuant to the Bank's use of its operating authorization levels, both for the current year and what it has done under the previous year's authorization level.

That estimate is then used in calculating the Bank's net cash flow for the year. Other variables that are included are net Eximbank borrowings, expected repayments of previous customer loans, expected payouts of customer loans agreed to in previous years, interest to be paid by the Bank, interest to be received by the Bank, and so on.

From what has just been said, it is obvious that Eximbank lending authority cuts have to be distinguished from Eximbank budgetary cuts.

There has been a popular misconception that if you take away $1 billion from the Bank's lending authority, you cut Federal expenditures by $1 billion. As I have just explained, this is not the case at all because, first, the Bank does not spend taxpayer money.

And, second, the figure on the Bank that is in the budget—the net cash flow—is affected to only a small extent by a cut in the Bank's lending authority.

For example, the administration is proposing that the Bank's loan authority for fiscal year 1983 be cut by $570 million—that is, from the $4.4 billion lending authorization the Bank had for fiscal year 1982 to $3.83 billion for fiscal year 1983.

That cut could support close to $1 billion in exports. But that large program authority cut will reduce the figure in the fiscal year 1983 budget for the Bank by only around $57 million.

Third, the Bank has been self-sustaining. It is capitalized with $1 billion of stock held by the U.S. Treasury and is authorized to borrow from the U.S. Treasury and the private capital markets. As indicated above, the Bank does not receive appropriated funds.

The Bank has operated at a profit throughout its long 47-year history—though it is projecting its first loss for the current year, fiscal year 1982. Cumulatively, the Bank has earned over $3 billion, $1 billion of which has been paid to the Treasury in dividends and $2 billion of which has been retained as a reserve for contingencies and defaults and invested in export loans.

The Bank's recent earnings have been as follows—in millions:

Net income, 1976, $115; 1977, $137; 1978, $139; 1979, $159; 1980, $110, and 1981, $11. Thus far in fiscal year 1982, Eximbank has lost a little over $60 million.

Fifth, though Eximbank loans do not use taxpayer money, critics charge the Bank does create taxpayer costs by its borrowings in the U.S. capital markets. The alleged costs are:

One, the difference between the Eximbank cost of its borrowings and the interest rate it charges when it loans that money, and

Two, the push that Eximbank borrowings give to drive up interest rates generally, so that all U.S. Government borrowings are at a higher rate.

In the past, Eximbank was able to borrow funds cheaper than it loaned. This is no longer true. Currently the Bank is charging 12 percent, plus a one-time 2 percent. This rate structure makes the Eximbank only marginally competitive.

The Bank's most recent borrowings of funds in the U.S. capital markets, through the Federal Financing Bank, were $1 billion on June 1, 1982, at 13.6 percent, and $775 million on March 1, 1982, at approximately 14 percent. Obviously when you relate these to the 12 percent it is charging there is a gap.

But this "cost" is still more than offset by the increased tax revenues and reduced unemployment costs resulting from the additional exports Eximbank makes possible. For example, a 1981 study by Wharton Econometrics Forecasting Associates, Inc., of a Westinghouse export of subway system equipment to Argentina indicated that the U.S. Government could expect to gain more than $9 for every $1 of Eximbank interest subsidy because of increased tax revenues and reductions in unemployment costs.

The overall "push" impact of Eximbank borrowings on U.S. capital markets is minimal. The Bank's net borrowings were about $1.9 billion in 1980 and $2 billion in 1981 and accounted in both years for about 1.5 percent of total Government borrowings and about half of 1 percent of total net credit demand. These figures indicate that the cost impact of the Bank on our gigantic credit markets is insignificant.

An easy way of asking yourself the truth of what I have just said, if the Bank were abolished tomorrow, how much would the interest rate in our country come down?

I now turn to what, in our judgment, are significant implications of the foregoing.

First, I have already referred to the exports and jobs we are losing—and will continue to lose—because of reduced Eximbank lending authority levels. Since the Bank's operations actually increased Federal revenues, the lost exports and jobs serve, in fact, to reduce Federal revenues.

Second, because of the stringencies under which Eximbank is operating and the understandable pressures on the Bank not to continue to add to its fiscal year 1982 "losses," some observers fear the Bank won't even use the limited authority it has for fiscal 1982.

Bank officials, however, have given strong assurances this will not happen. What we need here is an appropriate statutory clarification of the Bank's mandate so that its long-term responsibility to be competitive in world markets is not subverted by short-term profitability concerns as defined in terms of accounting principles applicable to commercial banks.

Incidentally, the Eximbank is to be commended for its creativity in arranging to make its guarantee authority available to Japanese banks, to encourage the latter to make loans in yen at relatively low Japanese market rates to foreign customers of U.S. exporters.

Third, there is the unresolved matter of the so-called "Gentlemen's Agreement," the OECD arrangement that seeks to impose an international discipline on concessionary governmental export credits.

The old agreement expires June 15 and the fate of the proposed new arrangement, the Swedish compromise proposal, was left apparently unresolved by the Versailles Summit Meeting. The Versailles communique simply said that, "We shall work for early agreement on the renewal of the OECD export credit consensus." We do not know what the prospects are for continuation except that we feel they are quite dim.

In any event, the U.S. negotiating drive in the OECD to reduce the problem of concessionary governmental export credits will continue and, of course, should. In that struggle a strong Eximbank is the only U.S. lever to pressure foreign governments to moderate their aggressive concessionary financing practices. The administration spokesmen this morning amply indicated that was the case.

The failure of recent U.S. efforts to negotiate limits on subsidized foreign government financing practices indicates that other major foreign trading countries—especially France, apparently—fully intend to continue aggressive use of export financing.

It increasingly appears that the only way to put the financing of exports on a sound economic basis is to permit the Export-Import Bank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by unsound financing practices. Then perhaps they would return to the bargaining table in a mood more receptive to our proposals.

Even as things stand now, the Eximbank is not in a position to be fully competitive compared to what foreign governments are willing to do. In fact, as we well know, the Bank is operating even above the minimum interest levels that would become applicable if the Swedish compromise proposal is adopted.

Fourth, the charter of the Eximbank will expire on September 30, 1983, and we understand that Mr. William Draper, the President and Chairman of the Bank, has already submitted to the Congress a draft of legislation to extend the Bank's charter to September 30, 1988.

We certainly hope that Congress will be timely and supportive in extending the Bank's charter so that no questions will arise as to the Bank's continuing ability to do its job.

In final analysis, the Eximbank should be dealt with by the Congress in the context of an overall awareness of what is happening to the world trading system. Broadly speaking, all major trading countries are continuing to express support for open, competitive multilateral trade.

But in these countries, including the United States, inflation, unemployment and high interest rates are creating strong protectionist pressures. We all know the disastrous consequences that would follow if the major economies of the world sought to deny their interdependence and each tried to insulate itself from the others.

The United States remains the economic, as well as the military, leader of the free world. Ours is the responsibility to use every economic leverage properly open to us to protect the rules and disciplines of competition and free trade that over the years have laboriously been established for the world trading system. It is very much to our selfish interest to do so.

Our foreign trading partners have seen Government concessionary export credits as an expediential method they can use to take advantage of us and each other. It is a costly practice for them, but one that they think is cost-effective. We have to teach them otherwise.

At the same time that we have to do the various other things required to protect as much as possible the open multilataral trading system, we have to maintain a strong Eximbank to pressure the others to reduce the use of theirs.

Thank you.

[The Wharton EFA, Inc., report prepared for the Budd Co. and the Westinghouse Electric Corp. is as follows:]

# Budd Company and Westinghouse Electric Corporation

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# Buenos Aires Subway Car Contract

## Net Impact on the Government of Export-Import Bank Financing

By

Wharton EFA, Inc.

## EXECUTIVE SUMMARY

Wharton Econometric Forecasting Associates conducted a study for the Budd Company and Westinghouse Electric Corporation to determine the economic benefits to the nation of one exemplary project submitted for financing by the Export-Import Bank of the United States. The study used the Wharton Annual and Industry Forecasting Model to estimate the effects on government receipts and expenditures that would result from the export sale of subway cars and related equipment for the Buenos Aires subway. The results show how these export sales -- supported by Exim Bank financing -- are translated into increases in domestic production, employment, income and government receipts.

For purposes of comparison, all outlays have been discounted back to millions of 1981 dollars using the three to five year government bond rate as the discount factor. The discount factor was selected after consultation with the Exim Bank.

The study demonstrates that production of transportation equipment for this project increases employment and taxable income for businesses and individuals and reduces unemployment and its associated costs. The result of these increases in revenues and reductions in outlays over the 1981-1991 period for the project shows a net gain to the U.S. government of $762.4 million. State and local government revenues would increase by $186.6 million during the same period.

Approximately half of the gain is due to increases in tax revenues government would collect as a result of new economic activity. The rest of the gain results from reductions in the amount government would have to pay for unemployment compensation, welfare and social security. The net gain figure accounts for the cost to the United States government in making up the difference between the higher interest rate at which the Exim Bank borrows and the lower rates at which it must loan to meet foreign competition.

## METHODOLOGY

To evaluate the net impact on the Government of the Buenos Aires subway car contract financed by the Export-Import Bank, it was necessary to perform the following analyses:

1) to determine the economic impacts of the subway car contract on the government by simulating the Wharton Annual and Industry Forecasting Model.

2) to determine the net borrowing cost incurred by Export-Import Bank by computing the difference between the interest paid by the Export-Import Bank and the interest received by them from the loan.

3) to compute the net impact on the Government of the loan by discounting to 1981 dollars the changes in federal and state and local governments surplus and subtracting the net borrowing cost of the Export-Import Bank loan discounted to 1981 dollars.

Wharton EFA received data from the Budd and Westinghouse companies on their estimates of their annual sales in 1980 dollars as well as their pre-production employment under the Buenos Aires contract. This information formed the basis for a macroeconomic model simulation. Prior to running the simulation this data was adjusted for inflation by the appropriate Wharton Model price deflator based in 1980 dollars and then deflated to 1972 dollars for consistency with the model.

Then it was necessary to evaluate the Export-Import Loan options for the Buenos Aires subway car contract. Westinghouse Corporation provided us with information as to the interest rate and repayment schedule under two Export-Import Bank financing options: 24 semi-annual repayments at a ten percent annual interest rate and 17 semi-annual repayments at a nine percent annual interest rate. These options both provide for a four year grace period after each loan drawdown in which only interest is paid as well as a commitment fee of one-half percent per annum on the unborrowed balance of the loan. On the basis of the drawdown schedule provided by the Westinghouse Corporation, we adjusted the annual drawdown by the Wharton Model price deflators which were also used to adjust the sales schedule for the model simulation. The revised drawdown schedule was then amortized according to the schedules we were provided.

To determine the borrowing cost of the Export-Import Bank, it was assumed that the Bank would borrow at the 3-5 year government bond rate at the time of each drawdown.1/ This removed the complexity of analyzing the actual Export-Import Bank borrowing process. Our assumption provides a 'worst case' outlook in which they must borrow at the time of the drawdown and refinance each drawdown every five years until it is fully amortized.2/ From the resulting interest cost of borrowing, the total interest payments received from the loan were subtracted to obtain the net borrowing cost to the Export-Import Bank.

Finally, the change in the federal and state and local government surpluses or deficits and the net borrowing cost to the Export-Import Bank were discounted to 1981 dollars by using the Wharton Model forecast of the 3-5 year government bond rate used in the calculation of the Export-Import Bank borrowing cost.

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1/ Choice of the 3-5 year U.S. government bond rate was based on discussions with staff members at the Export-Import Bank.

2/ The EXIMBANK Borrowing Schedule is assumed to follow the drawdown and repayment schedule of the Buenos Aires Subway car loan.

The net interest cost to the Export-Import Bank of the subway car and related equipment sale depends on the type of loan program employed. If a program of a 9 percent rate with 17 semi-annual repayments is adopted, the net interest cost to the Export-Import Bank is 85.7 million 1981 dollars yielding a net gain to the U.S. government of 762.4 million 1981 dollars. Utilizing the program with a 10 percent rate and 24 semi-annual repayments produces a net interest cost to the Export-Import Bank of 24.6 million 1981 dollars which implies that the U.S. government will obtain a net gain of 823.5 million 1981 dollars.

The following table summarizes the benefits, costs, and net gains to the U.S. government over the entire loan program period and over the 1981-84 period.

SUMMARY OF BENEFITS, COSTS, AND NET GAINS TO U.S.
AND STATE PLUS LOCAL GOVERNMENTS

(Millions of 1981 Dollars)

| | Entire Loan Period | 1981 to 1984 |
|---|---|---|
| Net Increase in U.S. Government Receipts minus Outlays | 848.1 | 228.9 |
| Net Interest Cost to Export-Import Bank (9 Percent Loan) | 85.7 | 23.7 |
| Net Gain to U.S. Government with 9 Percent Loan | 762.4 | 205.2 |
| Net Interest Cost to Export-Import Bank (10 Percent Loan) | 24.6 | 13.1 |
| Net Gain to U.S. Government with 10 Percent Loan | 823.5 | 192.1 |
| Net Increase in State plus Local Government Receipts minus Outlays | 186.6 | 52.8 |
| Addendum | | |
| Ratio of Net Increase in U.S. Government Receipts minus Outlays to Net Interest Cost to Export-Import Bank: | | |
| 9 Percent Loan | 9.9 | 9.7 |
| 10 Percent Loan | 34.5 | 17.5 |

The large net gains to the U.S. government generated by the production of the subway cars can be explained in part by accounting for the 'ripple' effects on the economy which magnify the initial production expenditures. Based on expenditure information supplied by Budd and Westinghouse and adjusted by the appropriate Wharton Model price deflators, a total of 732.0 million 1972 dollars of production will be sold by the Budd and Westinghouse companies over the year 1981 through 1991. Over this same period, these expenditures will result in a Gross National Product increase of 1.6 billion 1972 dollars and the creation of 75,400 man-years of new production. The rise in GNP implies an increase in overall economic activity of 2.2 times the initial Budd and Westinghouse expenditures. The nominal dollar increase in GNP (adjusted for inflation) is 2.5 billion dollars over 1981 through 1991. Of this, the U.S. government receives 32.5 percent via increases in tax revenues alone over the same period while state plus local governments receive 3.1 percent via increased tax revenues.

## PRESENTATION OF YEARLY RESULTS

Table I presents yearly values for the benefits, costs, and net gains to the U.S. government of the Export-Import Bank's support of the Budd and Westinghouse sale of subway cars and related equipment (hereafter subway cars) to Buenos Aires. All dollar figures are stated in millions of 1981 dollars. The Wharton Annual Model was used to estimate the influence of the production and sale of subway cars on the U.S. economy and on government receipts and outlays over the period 1981 to 1991. Beyond 1991, all remaining transactions involve loan repayments and would have negligible (if any) effect on U.S. economic activity.

The negative net interest cost to the Export-Import Bank of both the ten percent and nine percent loans during the 1990's and beyond results from the 3-5 year government bond rate declining below the lending rate. The net interest cost to the Export-Import Bank remains positive even after the current year borrowing rate drops below the ending rate because we have assumed that the Export-Import Bank commits to pay the 3-5 year government bond rate prevailing in the year that a drawdown occurs for five full years. This assumption probably results in an overstatement of net interest cost to the Export-Import Bank.1/ As can easily be seen from the year-by-year net gains to the U.S. government, the favorable results to the U.S. government is not dependent on the borrowing cost to the Export-Import Bank falling below the lending rate. The U.S. government enjoys a net gain in 1981 under the nine percent loan program even though the 3-5 year government bond rate is 13.3 percent.

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1/ The small negative net interest cost to the Export-Import Bank in 1981 under the ten percent program results from the 0.5 percent fee on the unborrowed balance.

Table II

BUENOS AIRES SUBWAY CAR CONTRA.,
NET IMPACT ON THE FEDERAL GOVERNMENT OF EXPORT-IMPORT BANK FINANCING
SUMMARY OF RESULTS

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Change in Federal Gov't Surplus or Deficit | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | 5.9 | 21.6 | 78.8 | 122.6 | 127.6 | 127.9 | 119.4 | 93.8 | 65.8 | 49.9 | 34.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 848.1 |
| Change in State and Local Gov't Surplus or Deficit | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | 1.5 | 4.9 | 18.0 | 28.4 | 30.6 | 32.0 | 31.0 | 22.4 | 12.3 | 5.5 | -0.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 185.8 |
| Borrowing Cost to Exim Bank - 9% Lending Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | 1.8 | 4.7 | 6.6 | 10.6 | 12.8 | 13.1 | 13.0 | 12.0 | 9.4 | 3.8 | 2.1 | -0.4 | -1.5 | -1.7 | -1.4 | -1.1 | -0.8 | -0.5 | -0.3 | -0.2 | -0.1 | 0.0 | 0.0 | - | - | - | 85.7 |
| Borrowing Cost to Exim Bank - 10% Lending Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | -0.1 | 2.3 | 5.8 | 7.1 | 8.9 | 8.9 | 9.4 | 8.6 | 5.3 | 1.9 | -2.0 | -4.1 | -4.9 | -4.7 | -4.0 | -3.2 | -2.5 | -2.0 | -1.5 | -1.1 | -0.7 | -0.4 | -0.2 | -0.1 | -0.1 | 0.0 | 28.6 |
| Net Impact on Federal Gov't - 9% Lending Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | 4.1 | 16.9 | 72.2 | 112.0 | 114.8 | 114.8 | 105.6 | 81.0 | 56.4 | 46.1 | 32.7 | 0.4 | 1.5 | 1.7 | 1.4 | 1.1 | 0.8 | 0.5 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | - | - | - | 762.4 |
| Net Impact on Federal Gov't - 10% Line 1 - Line 4 Lending Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discounted Present Value in Million 1981 $ | 6.0 | 19.3 | 73.0 | 115.3 | 118.7 | 119.0 | 110.0 | 85.2 | 60.3 | 48.0 | 36.8 | 4.1 | 4.9 | 4.7 | 4.0 | 3.2 | 2.3 | 2.0 | 1.3 | 1.1 | 0.7 | 0.4 | 0.2 | 0.1 | 0.1 | 0.0 | 819.5 |
| Discount Factor 1981 = 1.0 | 1.00 | 1.13 | 1.27 | 1.44 | 1.62 | 1.81 | 2.03 | 2.25 | 2.46 | 2.66 | 2.88 | 3.11 | 3.36 | 3.63 | 3.92 | 4.23 | 4.56 | 4.91 | 5.28 | 5.68 | 6.11 | 6.57 | 7.07 | 7.61 | 8.18 | 8.80 | |
| 3-5 Year Government Bond Rate Percentage | 13.3 | 13.3 | 12.1 | 13.2 | 12.6 | 12.1 | 12.0 | 10.8 | 9.3 | 8.3 | 8.2 | 8.1 | 8.1 | 8.0 | 7.9 | 7.8 | 7.7 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.5 | 7.6 | 7.6 | |

Note: The Wharton Model projects the government bond rate to fall below 9 percent beginning in 1990. As a result, any funds borrowed or returned by the Export-Import Bank after 1989 will be below the Bank's lending rates.

Table II presents the major economic impacts of the subway car project on an annual basis over the period 1981-1991. The direct real 1972 dollar outlays by Budd and Westinghouse result in an ultimate increase to total real Gross National Product which, on average, is 2.2 times the amount of the direct outlay. This multiplier effect results from the chain of transactions which follow in the wake of the initial outlay. A multiplier value slightly in excess of two on average is similar to the size of the multiplier associated with increased military expenditures on hardware or increases in producers durable equipment purchases.

The decreases in state plus local government tax revenues during the last three years of the simulation (and the decline in their surplus during 1991) occur because of the procedure used to calculate tax receipts for state and local governments in the Wharton Annual and Industry Forecasting Model. Effective state plus local government tax rates are adjusted (calculated) in the model so as to move these government units towards a balanced budget position over time. These government units, unlike the federal government, typically cannot run large deficits for a period of years nor are they likely to run large surpluses. Therefore, after the upsurge in revenues during the early years, effective rates are adjusted downward to bring receipts and expenditures back toward equality.

Table II

### BUENOS AIRES SUBWAY CAR CONTRACT
### ECONOMIC IMPACTS

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Budd and Westinghouse Subway Car Expenditures (millions 1972 dollars) | 6.2 | 19.5 | 65.0 | 103.0 | 105.5 | 105.5 | 105.4 | 84.4 | 56.4 | 44.9 | 36.2 | 732.0 |
| Change in Gross National Product (millions 1972 dollars) | 7.6 | 30.9 | 123.9 | 210.2 | 230.3 | 241.9 | 236.3 | 192.3 | 134.6 | 99.5 | 67.1 | 1574.6 |
| Ratio of Change in GNP to Subway Car Expenditures (line 2/line 1) | 1.2 | 1.6 | 1.9 | 2.0 | 2.2 | 2.3 | 2.2 | 2.3 | 2.4 | 2.2 | 1.8 | 2.2 |
| Change in Gross National Product (millions nominal dollars) | 18.4 | 66.9 | 246.2 | 395.5 | 417.0 | 446.6 | 427.7 | 301.7 | 152.0 | 72.7 | -11.0 | 2531.7 |
| Change in Federal Gov't Surplusor Deficit (millions nominal dollars) | 6.0 | 24.5 | 100.1 | 176.3 | 206.1 | 231.6 | 242.3 | 210.8 | 161.6 | 132.8 | 100.2 | 1592.3 |
| Change in Federal Gov't Revenues (millions nominal dollars) | 4.9 | 19.5 | 72.7 | 115.6 | 122.5 | 133.7 | 130.4 | 97.2 | 60.6 | 43.6 | 22.2 | 822.9 |
| Change in State and Local Gov't Surplus or Deficit (millions nominal dollars) | 1.5 | 5.6 | 22.8 | 40.8 | 49.4 | 59.5 | 62.9 | 30.4 | 30.3 | 14.6 | -2.4 | 335.4 |
| Change in State and Local Gov't Revenues (millions nominal dollars) | 1.9 | 5.1 | 16.6 | 26.0 | 28.1 | 33.1 | 28.3 | 10.9 | -8.7 | -23.6 | -38.9 | 78.8 |
| Change in Total Employment (man years) | 560 | 1,480 | 4,600 | 8,330 | 10,590 | 11,600 | 11,630 | 10,130 | 7,600 | 5,380 | 3,300 | 75,400 |

### JOBS LOSS

Senator **Kasten**. Thank you.

Each of you referred to lost jobs. Then we say not all these jobs are necessarily due to loss of export contracts and export possibilities that would have been related to Eximbank financing.

Can any of you give us rough totals in dollars or jobs that have been lost by your companies to foreign competitors because of lack of Eximbank support, either in dollars and/or in jobs?

Maybe that is impossible to do. Maybe you prefer to do it for the record. If I could have a brief comment in terms of dollars and jobs due to lack of Eximbank support.

Mr. **Stamper**. Mr. Munson is vice president of marketing for Boeing. Can you cough up such a figure for the Senator?

Mr. **Munson**. No; I cannot.

Mr. **Stamper**. How about Mr. Pierce?

Mr. **Pierce**. No; but if you acknowledge all aircraft types, 747's have been by number of units greater than 50 percent.

Also acknowledging the fact that in the new technology type aircraft at the present time, if we lose the initial sales we have lost business for the next 15 years for that aircraft type in that particular country.

Mr. **Stamper**. We have made a study trying to average, and realize you are averaging 747's at $70 million with an airplane that might be $20 million like a 737 and come up with something like 1,500 employees per year to build the airplane. You have to multiply that times the supplier network and then by the support and repair.

It is a big figure per each plane. Part of the trouble is that it is never clear how you lose a deal exactly. We know it doesn't help. Certainly in the Vasp case it is not lost strictly on Eximbank financing. It is on the combination that these government consortiums have other leverages.

If they can give soft financing we are not quite competitive because we have added our 2-percent fee. You cannot tag it 100 percent in each case. It is clear like in the Singapore case we lost six 757's that they could have bought from us, they would have bought them in spite of the funding level. You can see those are $35 million airplanes and you can extrapolate those figures back to it.

It is hard spending the time to do that to get on the defensive mode with the Bank. We have given them 8 or 10 cases we think we have lost on the basis of funding, and we get to a hassle where they would distinguish that that was not the case, that we have not lost them on that basis.

We know we are losing business. Forty-six percent of international market went to our competitors last year, and we think we have a better airplane. We used half of the Bank's funding. Obviously we are losing them and a lot of employment.

Mr. **Durka**. I want to make an observation which I think is extremely important in the U.S. trade policy area which to me frustratingly is ignored.

Mainly the assumption that you can deal with qualitative matters in quantitative terms. It seems to me that the first requisite in discussing trade policy issues, does concessionary export financing make a difference, is to use common sense.

Foreign trade is a very competitive business. As Mr. Stamper has just indicated, it is a very complex matter as well. To identify by a sort of law of physics separate causes and separate effects is to ask the impossible in complex matters.

I remember when the Congress and executive branch a short time ago were discussing the question of taxation of Americans overseas that the United States engaged in, which no other country did. The administration's, then in office, first position was prove to us in quantitative terms that the fact that Americans are taxed substantially more than anybody else has an impact on our exports.

You get the same kind of question repeatedly asked by people who really are not sympathetic to the issue, but who want to create an excuse for ducking it, say "Prove to us in quantitative terms that this practice or that practice really causes exports to be lost."

It is the simple use of commonsense. If you were to ask somebody who put that straw on the camel's back and broke it, prove to us this straw broke the camel's back, you couldn't.

To answer the question quantitatively, we feel there are a number of transactions where export financing differences were so material that they were the principal factor in causing my company to lose the business. The transactions run into the hundreds of millions of dollars. Rather than giving you now the specifics, if the committee deems this relevant and material, what we would like to do is make a submission to the record.

Suffice it to say the loss of jobs because of inadequate financing is very substantial.

Senator **Kasten**. I agree completely with your straw on the camel's back analogy. As a member of the Budget Committee and the Appropriations Committee, those are the kinds of choices we are dealing with every single day.

The closer we can come to expressing these kinds of facts in specific ways the better we are going to be able to make the decisions that we are in the process of trying to make.

I don't think I have to tell you that those of us on the Budget Committee in particular are in the process of choosing between the five or six worst choices. We are trying to find the best of all the worst choices as we deal with the economic problems we are faced with, including problems with the Eximbank.

Mr. **Durka**. We will be happy to submit the data.

[The information follows:]

GENERAL ELECTRIC
GENERAL ELECTRIC COMPANY
570 LEXINGTON AVE., NEW YORK, N.Y. 10022

WILLIAM J. DURKA
MANAGER
INTERNATIONAL TRADE POLICY
OPERATION

July 13, 1982

Senator Robert W. Kasten, Jr.
328 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Kasten:

As requested by you, Attachment A of this letter describes a number of specific instances during this past year where General Electric Company lost export sales because of the lack of competitive export financing. The total U.S. sales value of just these projects - six in number - totals over $213 million, costing an estimated loss of 3,000 jobs in GE alone. Another 3,000 jobs or more were probably lost by our vendors and suppliers.

In analyzing the impact on the U.S. economy of insufficient Eximbank financing, it is, as a general rule, difficult to attribute the loss of a given export sale to any single factor. Thus, while there are instances such as the ones described in Attachment A where the inability to meet concessionary financing offered by a foreign competitor is the principal reason for a lost sale, more often the lack of competitive financing is a significant - but not demonstrably the determinative - factor which ultimately tips the scale in favor of the foreign competitor. We have not tried to tabulate and describe such cases.

In addition, U.S. companies are increasingly being forced to go to their foreign affiliates to source export orders in order to obtain competitive export financing. The total number and job importance of export orders lost to the U.S. due to foreign sourcing by U.S. multinationals is of course difficult to calculate. However, a survey of 39 member firms by the Machinery and Allied Products Institute (MAPI) determined that, in 1981 alone, 39 transactions with a dollar value of $386.7 million were diverted to foreign affiliates primarily because of the availability of competitive financing.

There is also the fact that, in some cases, companies simply do not bid on a project if it is unlikely that they will be able to compete against the export credit subsidies offered by their foreign competitors. For example, the Company decided not to submit a bid for gas turbines in Argentina because of lack of competitive financing. The U.S. sales value of the project was estimated at $20,000,000 and would have generated approximately 640 jobs.

If we can be of any further assistance to you or the Subcommittee, please advise. We again thank you for the opportunity to appear on June 10.

Sincerely,

William J. Durka

William J. Durka

WJD:mjm
Attachment

ATTACHMENT A

## LOST EXPORT SALES BY GENERAL ELECTRIC COMPANY DUE TO LACK OF COMPETITIVE EXPORT FINANCING

- PANAMA - Gas Turbine Generators

U.S. Sales Value: $7,400,000

Eximbank Assistance: 65% Guarantee only

Lost to: Japan

Government Assistance: 85% Direct Credit at 7.75%

GE JOBS LOST

| | |
|---|---|
| . Schenectady, NY | 57 job years |
| . Durham, NC | 45 job years |
| . Salem, VA | 12 job years |
| . Pittsfield, MA | 7 job years |
| TOTAL: | 121 job years |

- VENEZUELA - Medium Steam Turbines

U.S. Sales Value: $48,000,000

Eximbank Assistance: 65% Direct Credit at 10.75% + 2% fee

Lost to: Japan

Government Assistance: 85% Direct Credit at 8.5%

GE JOBS LOST

| | |
|---|---|
| . Lynn, MA | 259 job years |
| . Durham, NC | 183 job years |
| . Schenectady, NY | 10 job years |
| TOTAL: | 452 job years |

- ZIMBABWE - Locomotives

U.S. Sales Value: $40,000,000

Eximbank Assistance: 75% Credit at 10.75% + 2% fee; 10% Supplier Credit at 10.75%, 10 year term + AID soft loan

Lost to: Canada

Government Assistance: Mixed Credit
$6 million at no interest, 10 year grace period, 40 year repayment; 65% credit at 10.25% (7½% in Swiss francs), 10 year term; 35% commercial bank

financing at 12 1/8% (U.S. dollars) or 8¼% (Swiss francs), 5 year term

GE JOBS LOST

| | |
|---|---|
| . Erie, PA | 545 job years |

- PERU - Electric Power Transmission Substation

U.S. Sales Value: $8,600,000

Eximbank Assistance: None
(Best commercial terms offered - 1¼% over LIBOR for 8 years)

Lost to: France

Government Assistance: 8.25%, 10 year term

GE JOBS LOST

| | |
|---|---|
| . Schenectady, NY | 178 job years |
| . Philadelphia, PA | 89 job years |
| TOTAL: | 267 job years |

- KOREA - Nuclear Turbine Generators

U.S. Sales Value: $104,900,000

Eximbank Assistance: 65% Direct Credit at 10.75% + 2% fee

Lost to: France

Government Assistance: 65% Direct Credit at 7.6%

GE JOBS LOST

| | |
|---|---|
| . Schenectady, NY | 1,022 job years |
| . Portland, ME | 208 job years |
| . Charleston, SC | 118 job years |
| TOTAL: | 1,348 job years |

- COLOMBIA - Diesel Substation

U.S. Sales Value: $5,500,000

Eximbank Assistance: None

Lost to: Switzerland

Government Assistance: 85% Direct Credit at 7.5, 6 year term

GE JOBS LOST

| | |
|---|---|
| . Schenectady, NY | 165 job years |

Mr. HURLBERT. Mr. Chairman, in May 1982 the Labor Industry Coalition for International Trade canvassed a number of the major users of the Export-Import Bank. They showed at that time $1,129 million of export sales had been lost, and they calculated there were 34,889 jobs that had been lost.

We can provide you for the record the information that you requested as far as our company is concerned. There are some jobs that very clearly we lost. We had an offer from the people who were willing to give us the business. All we needed was Eximbank financing. That is black and white.

Then there is a gray area where it was an important consideration, we lost the business, and there are others where it was minor.

The thing that is hard to accept is there have been seven major negotiations where we never got to the negotiating table, where the British and French went in and said: "Look, if you don't put this out for bid, we will give you a favorable export credit and therefore you sit down and negotiate with our vendors. They are Indonesia, India, Mexico, and Oman."

That is as bad a problem as we have. It is becoming very prevalent where the governments, particularly of Great Britain and France go in, make a deal on export financing, such as to Egypt, and the job never comes to bid. We never get a chance to come to the table.

We can give you examples of where that has happened. Whether we would have gotten the order if we had been at the table of course, you would have to put some probability on it based on past performance or something like that.

Senator KASTEN. I have two additional questions I would like to ask you to respond to, but unfortunately I am going to have to recess the subcommittee for approximately 5 minutes.

We will recess the subcommittee and then I will come back. I have to appear at another subcommittee.

[Recess.]

### LOSS OF HIGH-TECHNOLOGY INDUSTRIES

Senator KASTEN. The subcommittee will please come to order.

It is one thing to lose contracts and to lose jobs, depending on how we quantify that. I hope your response can be brief because we are starting to run behind, but I am concerned about the possibilities of losing not only an edge for America in some of the high-technology industries, but in fact that the United States could be in the process of losing substantial portions of entire industries due to lack of Eximbank support.

One easy example is the whole area of nuclear power which some of you are in, and the fact that the domestic market for that particular product is limited and the growing market is overseas and maybe particularly in Third World countries as you were suggesting.

Could each of you respond to that point, the fact that we might lose our high-technology edge and the possibility of losing entire industries due to lack of competition because of the predatory financial practices of these other countries?

Mr. Stamper, why don't you lead off.

Mr. **Stamper**. Your concerns are very valid ones. In our case we are a national asset from the standpoint of being in the defense business. What hurts our so-called surge capability in case of war, ability for the company to have the technological muscle and physical capability to produce aircraft is critical. So, anything that weakens that industry.

Some people say if the people aren't building airplanes they can do something else. In our case that is not really true. We have been through this in 1970 where Ph. D.'s were mowing the lawn and so forth. For an aeronautical engineer there is not much else he can be doing other than in this area.

The reason our European competition is so interested in supporting theirs so heartily is for that reason. They want the high value jobs, high-technology base and also the military capability.

So that is what is at risk right now.

Mr. **Hurlbert**. I think I was remiss in my prior testimony in not saying that we did get support—you mentioned nuclear—the U.S. manufacturers did get support from the Eximbank for the recent nuclear order in Taiwan, the nuclear negotiation.

We may still lose the turbines to the English, but I think perhaps an American vendor will be awarded the nuclear steam supply system in Taiwan. I think within the framework of what the Bank has to work with they are attempting to recognize the point that you bring up.

However, there is real grave danger in both power generation and in nuclear steam supply systems that without Export-Import Bank financing, adequate and competitive—whether there will be those businesses in the United States or at least whether there will be competition in those businesses in the United States 5 years from now.

I think that we should commend Eximbank for supporting the Taiwan negotiation for the nuclear steam supply systems, recognizing the point you are bringing up.

From our point of view their funding is inadequate and the rates are competitive only in very limited few cases as in Taiwan.

Mr. **Durka**. I think the concern implicit in your question is deeply shared by my company that the United States has a very progressive, aggressive and enlightened policy for the whole high-technology area which has many aspects. Export financing is only one. That is needed to let the U.S. exporters get economies of scale and get the business necessary to keep leadership in the high-technology area.

There are many other aspects. The French Government has as one of its principal new elements of its new socialist Government program emphasized high-technology for the French. They have the world as their market area.

The developing countries are coming up with concepts to try to share in the high-technology developments that are taking place because they regard high technology as a principal engine for their own economic development and so forth.

So that anything that would sacrifice the current U.S. lead in high technology overall would be detrimental to our national interests as the structure of the world trading system changes very much influenced by high technology and what is happening to the world trading system.

It would be a colossal case of shooting ourselves in the foot if we didn't do everything possible to maintain the leadership of the United States in this area.

Mr. STAMPER. Mr. Chairman, relating to Lockheed going out of the airplane business, which I think is a good example here, they were in third place 2 years ago in terms of world sales. Their record actually is that they have sold twice as many aircraft over the same period of time as Airbus has sold.

Airbus at the end of 5 years had only sold 57 airplanes and mostly to themselves. No American company could have survived under that kind of arrangement.

As Lockheed points out, they are not able to substantiate it. Without heavy subsidization the foreign aircraft companies would not be able to stay in the business.

You can see that pressure can force others out of the business as well.

Senator KASTEN. Gentlemen, thank you for appearing before the subcommittee today. We look forward to working with you.

There may be additional questions coming from members of the subcommittee. Those questions will be submitted in writing. Hopefully you can come back with answers and with whatever employment statistics you can work out.

Our next witness is Raymond Garcia, executive director of the Coalition for Employment Through Exports.

I don't know if this is part of your intention, but it would be very much appreciated if you could also tell us a little bit about your organization, which as I understand it is a new one here in Washington. I do not know of one that is more ambitious in terms of the undertakings, at least from the reading and studying I have done that you are seeking to achieve.

Also you have received good marks from all the sources I have seen on your efforts to date. It is a pleasure to have you appear before our committee today.

## COALITION FOR EMPLOYMENT THROUGH EXPORTS

### STATEMENT OF RAYMOND GARCIA, EXECUTIVE DIRECTOR, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. GARCIA. Thank you very much, Senator.

In the interest of time I would like to summarize my statement and submit it for the record. We are delighted to have the opportunity to appear before this subcommittee. I am glad to tell you a little about the Coalition for Employment Through Exports.

At the moment we have 40 large and small business organizations, 14 labor organizations, and 3 Governors that belong to the Coalition for Employment Through Exports. The list of our members is appended to the testimony. It is a unique coalition. It is one that has been in existence only since February.

Perhaps one of the most unique aspects of the coalition is that it does have the strong support of labor unions.

The fact that the AFL–CIO, for the first time this year, on February 15, at a meeting of its executive council in Bal Harbor, Fla., issued a resolution that supported the Eximbank, is an example of the importance the labor unions attach to an adequately funded Eximbank.

Specifically, the AFL-CIO executive council in its statement called on both the President and the Congress not to cut the Export-Import Bank budget as long as other countries continue to subsidize their exports. This is a rather unique statement from the AFL-CIO.

In addition, individual unions have passed resolutions not only supporting the present level of funding, but asking to increase it. In a telegram sent to Members of the House of Representatives last week, several unions indicated that they supported raising the direct lending ceiling of the Eximbank from the current level of $4.4 billion to $4.7 billion, the Congressional Budget Office baseline level.

Also the State Governors at their meeting on February 22, here in Washington, passed a major resolution supporting the Eximbank by calling for increased funding. Since then the three Governors that are members of our coalition—the Governor of your own State, Governor Dreyfus—Governor Bob Graham of Florida, and Governor John Spellman of Washington, sent a letter to all the other State Governors asking them to speak out on the issue of export financing.

CEE is a unique coalition representing labor, business, and State governments, and we hope that over time our membership will grow even greater.

What brings me here today is to discuss the Export-Import Bank and U.S. export financing policy. Earlier you heard from the Treasury representative, indicating the status of the OECD discussions in Paris to reach some sort of compromise proposal on the extent to which governments might support export financing.

As we watch events unfold, we frankly have mixed feelings about whether or not we would want the proposal under discussion to be approved. Were it to become effective, some further measure of limiting Government-supported export credits would have been achieved. For that we are very grateful. But at what cost?

Critics of the Export-Import Bank might paint the arrangement in rosy hews, claiming for it much more than it deserves and calling for further dismantling of an already constricted Export-Import Bank.

Let me be more specific about the terms of the proposed arrangement.

For the relatively rich countries, interest rates would vary betweeen 12¼ and 12½ percent, depending on the maturities. Were this to happen, the Export-Import Bank would likely adjust its current rate upward to meet this condition. Now they are at 12 percent, they might raise it to 12¼ or 12½. They would have to.

For the "intermediate" income countries, the rate would vary between 11 and 11.6 percent, which is below Eximbank's current rate of 12 percent. Bank officials reportedly have indicated that the Bank would not adjust its current rate downward to aline itself with the rates charged by the export credit agencies of our foreign competitors.

The difference between the U.S. interest rate and theirs would be even more dramatic, when compared with the 10-percent rate for the relatively poor countries.

Now against this disadvantage in relative interest rates the United States would also agree to give up for 1 year the right to depart from or "derogate" from the agreed terms, that is, the right to offer countries a loan which would be more attractive to the customer than the loan which complies with the agreement.

An Eximbank loan of this type would probably be for longer, even much longer, repayment terms than our competitors would be willing to offer. In our view, the right to do this has been a rather significant deterrent, I might add virtually our only deterrent, in the Eximbank's confrontations with other countries' export credit agencies.

We realize that our competitors would also give up their right to derogate on interest rates, but with the advantage they already have in giving greater loan coverage than our Export-Import Bank gives and the United States reluctance to use mixed credits, that is, credits that mix foreign aid with our own export credits, we doubt that the compromise proposal represents a reciprocal bargain.

What does this have to do with strengthening the U.S. Eximbank? In our view an important reason why our negotiators have failed thus far to achieve an arrangement that more tightly limits subsidization of export credits is that our competitors no longer consider the U.S. Eximbank a credible threat to them. They see our Government reducing the Bank's authority and restricting its program, as the U.S. dollar grows stronger and U.S. exports are becoming less competitive.

They also see too many U.S.-owned companies approaching their export credit agencies and not our own to get the business. The result is that products increasingly are being produced abroad with foreign workers and not in the United States with American workers. This is what disturbs our union members and causes them to join the coalition, with justifiable cause.

The Machinery & Allied Products Institute in March of this year released a report on the results of a survey it conducted of a limited number of their member companies to quantify the loss of exports resulting specifically from the shift in orders to foreign affiliates because of noncompetitive U.S. export financing.

The survey found that 14 companies reported 39 transactions valued at nearly $400 million that had been shifted during 1981 to foreign affiliates, primarily if not exclusively, because of more attractive financing being offered by government export credit agencies in those countries.

Nine companies reported they had lost or had not bid on projects valued at $4.3 million in third countries, because of their inability to obtain competitive export financing. Three companies reported the loss or prospective loss of orders for customers in the United States totaling some $160 million.

Now in our view these survey results are just the tip of the proverbial iceberg of the volume of business that is lost each year because of uncompetitive U.S. export financing. Once sales are lost, particularly on the "big ticket" items, the United States will also have lost the prospect of follow-on orders, orders for spare parts and the like.

Major markets lost today can be lost for as long as a generation. Just when the U.S. economy needs the Export-Import Bank the most the administration is seeking to make major cuts in the Bank's direct lending authority.

From $5.4 billion in fiscal 1981, the authority was cut to $4.4 billion in fiscal 1982 and is being proposed for further reduction to $3.8 billion in fiscal 1983, a total decrease of 30 percent over 2 years.

The effect of the decrease is even greater, if adjusted for inflation and a stronger dollar. A reduction of this magnitude, in our judgment, seriously undermines the Bank's ability to respond effectively to government-subsidized export credits offered by our competitors, costs the United States losses of jobs and exports at a time when we can least afford them and convinces other governments that the United States is not prepared to take effective action to limit their subsidized credits.

We believe that the time has come for our Government to take tough action to match their tough talk about export credits.

I was delighted to hear this morning that the administration is thinking about a number of alternatives should this arrangement fail and equally delighted with your line of questioning, Senator, probing when they were going to come up with some kind of proposal. We have three proposals to make ourselves on that very issue now.

First, if an agreement on the new consensus arrangement is reached by June 15, and it does not look like it is going to, we would urge this subcommittee to approve a direct lending ceiling for the Eximbank of at least $4.4 billion for 1983, the level I think the Budget Committee agreed to and the Senate agreed to.

We would hope that that figure might even be increased to $4.7 billion, which we understand is the Congressional Budget Office's baseline level. Increasing it to that level would be a symbolic gesture. I must say it would be just symbolic—we are talking only about $300 million—but it would show that this body recognizes the important role that the Eximbank plays in supporting jobs and exports and show our competitors that even during periods of severe budget stringency the United States is not prepared to dismantle the Eximbank any further.

Second, we would urge the Eximbank to recapture its competitive position by eliminating immediately the differential between the Eximbank's effective interest rates and the interest rates offered by foreign export credit agencies. I talked earlier about the fact that for the intermediate countries rates would vary between 11 and 11.6 and for the poor countries, the rates in the consensus proposal would be 10 percent. Why can't the Export-Import Bank reduce its rates to those that the United States is prepared to agree to in the consensus to become competitive? After all, the Congress has directed the Bank to be competitive.

Third, the United States should begin preparations as soon as possible to pursue aggressively the objective of eliminating all Government subsidization of export credits in the next round of export credit talks next year.

But, since it appears likely that there will be no new consensus arrangement by June 15, we propose that the administration immediately ask the Congress for an emergency $2 billion supplemental increase in the Bank's direct lending authority and to direct the Bank to derogate significantly on several appropriate lending transactions.

The supplemental should be specifically earmarked to deal with cases involving predatory financing practices. These measures would give the administration the "2 by 4" that Ambassador William E. Brock reportedly has said he needs to get other nations to agree on export credit subsidy levels.

While legislative proposals such as those introduced by Senator Heinz, S. 868 and S. 2600, and Congressman Neal, H.R. 3228, to authorize appropriations of $1 and $2 billion for a competitive export subsidy fund might be very desirable for the longer run, and we would support those, we believe that our negotiators need to convince our competitors that the United States is serious about confronting their predatory financing practices now.

The Heinz and Neal proposals are authorizations, not appropriations, hence they would require further action before becoming credible countermeasures.

Once granted, it is our further hope that these measures might never have to be used and thus they would have no added impact on the U.S. budget deficit. Our objective is to end the predatory export credit race and not to prolong it.

I thank you, Mr. Chairman, for giving me this opportunity to appear before you. I looked forward to addressing your questions.

[The statement of Mr. Raymond Garcia is as follows:]

# PREPARED STATEMENT OF RAYMOND GARCIA

## PRESIDENT

## COALITION FOR EMPLOYMENT THROUGH EXPORTS, INC.

Mr. Chairman and Members of the Subcommittee:

I am Raymond Garcia, President of the Coalition for Employment Through Exports, Inc. CEE is composed of 40 large and small business organizations, 14 labor organizations and 3 governors. Our members are listed in the appendix.

Although our coalition is diverse in make-up, we share a common purpose. We are working for a strengthened Export-Import Bank in the national interest. Since we announced our organization four months ago, we have more than doubled in size and we expect to continue to grow as others hear about our work.

Gentlemen, these hearings could not be more timely. On May 7, after representatives of the 22 members of the Organization for Economic Cooperation and Development (OECD) failed to reach agreement on further limiting government-supported export credits, the chairman of the group offered them a compromise proposal to take back to their governments for review and approval.

Essentially, the compromise proposal would classify countries as "relatively rich," "intermediate" and "relatively poor," raise minimum interest rates and set maximum repayment periods for government-supported export credits for each class of countries. It would also limit so-called "mixed" credits — those that combine foreign aid with export credit — and ban derogations on rates and terms from the arrangement for one year. And it would provide a special status for Japan owing to the lower interest rates prevalent in that country today.

By mutual agreement, OECD governments had until May 25 to decide whether to approve the compromise. On May 17, France and Greece, at a meeting of the European Communities foreign ministers, reportedly stated that they were not prepared to accept the proposal and the United Kingdom expressed reservations. The U.S. subsequently agreed to an extension of the deadline until June 15, in the hopes that the European Communities might join the other countries in allowing the proposal to come into force retroactively to May 10.

As we watch events unfold, we frankly have mixed feelings about whether or not we would want the proposal to proceed. Were it to become effective, some further measure of limiting government-supported export credits would have been achieved. And for that we are very grateful. But at what cost? Critics of the Eximbank might paint the arrangement in rosy hues, claiming for it much more than it deserves and calling for further dismantling of an already constricted U. S. Export-Import Bank.

Let me be more specific about the terms of the proposed arrangement. For the "relatively rich" countries, interest rates would vary between 12.25 and 12.5 percent depending on the maturities. Were this to happen, the Eximbank would most likely adjust its current rate upward to meet this condition. For the "intermediate" income countries, the rate would vary between 11 and 11.6 percent, which is below Eximbank's current rate of 12 percent. The Bank officials have reportedly indicated that the Bank would not adjust its current rate downward to align itself with the export credit agencies of our foreign competitors. The difference between the U.S. interest rate and theirs would be even more dramatic when compared with the 10 percent rate for the relatively poor countries.

Now against this disadvantage in relative interest rates, the U.S. would also agree to give up, for one year, the right to depart from or to "derogate" from the agreed terms -- that is the right to offer countries a loan which would be more attractive to the customer than a loan which complies with the agreement. An Exim loan of this type would probably be for longer, even much longer, repayment terms than our competitors would be willing to offer. In our view the right to do this has been a rather significant deterrent -- and I might add virtually our only deterrent -- in the Eximbank's confrontations with the other countries' export credit agencies. We realize that our competitors would also give up their right to derogate on interest rates, but with the advantage they already have in providing greater loan coverage than our Export-Import Bank provides and the U.S. reluctance to use "mixed" credits, we doubt that the compromise represents a reciprocal bargain.

Moreover, even if the arrangement or agreement appeared on its face entirely reciprocal, the differences in banking practices among the United States and its competitors could easily conceal ways our competitors have of subsidizing their financing that are not open to the U.S. Hence, our skepticism about the full value of what was proposed in Paris.

Now what does this all have to do with strengthening the U.S. Export-Import Bank? In our view, an important reason why our negotiators have failed to achieve an arrangement that more tightly limits subsidization of export credits is that our competitors no longer consider the U.S. Export-Import Bank a credible threat to them. They see our government successively reducing the Bank's lending authorities and restricting its programs. They also see too many U.S.-owned companies approaching them for financing and passing up the Export-Import Bank in the United States. The result is that products increasingly are being produced abroad with foreign workers and not in the United States with American workers. This is what distrubs our union members as well as our business members, with justifiable cause.

The Machinery and Allied Products Institute in March of this year released a report on the results of a survey it conducted of a limited number of their member companies to quantify the loss of exports resulting specifically from the shift of orders to foreign affilitiates because of noncompetitive U.S. export financing. The survey found that:

-- 14 companies reported 39 transactions valued at nearly

$400 million in orders had been shifted during 1981 to foreign affiliates "primarily, if not exclusively, because of more attractive financing;"

-- 9 companies reported that they had lost, or had not bid on projects valued at $4.3 billion in third countries, because of inability to offer competitive export financing; and

-- 3 companies reported the loss, or prospective loss, of orders for customers in the United States totaling some $160 million.

In our view these survey results are just the tip of the proverbial iceberg of the volume of business that is lost each year because of uncompetitive U.S. export financing. Once sales are lost, particularly on "big ticket" items, the U.S. will also have lost the prospect of follow-on orders, orders for spare parts and the like. Major markets lost today can be lost for as long as a generation.

Just when the U.S. economy needs the Export-Import Bank the most, the Administration is seeking to make major cuts in the Bank's direct lending authority. From $5.4 billion in fiscal 1981, the authority was cut to $4.4 billion in fiscal 1982 and is being proposed for further reduction to $3.8 billion in fiscal 1983 -- a total decrease of 30 percent over two years. The effective decrease is even greater if adjusted for inflation and a stronger dollar. A reduction of this magnitude, in our judgement, seriously undermines the Bank's ability to respond effectively to the government subsidized export credits offered by our competitors, costs the United States losses of jobs and exports at a time when we can least afford them, and convinces other governments that the United States is not prepared to take the necessary action to limit their subsidized credits.

We believe that the time has come for our Government to take tough action to match their tough talk on export credits.

If an agreement on a new consensus arrangement is reached by June 15, first we would urge this subcommittee to approve a direct lending ceiling for the Eximbank of at least $4.4 billion for fiscal year 1983. We would hope that that figure might even be increased to $4.726 billion, which we understand is the Congressional Budget Office's baseline level. Increasing it to that level would be a symbolic gesture that this body recognizes the important role that the Export-Import Bank plays in supporting jobs and exports. And it would show our competitors that even during periods of severe budget stringency the U.S. is not prepared to further dismantle its Export-Import Bank.

Second, we would urge the Export-Import Bank to recapture its competitive position by eliminating immediately the differential between the Eximbank's effective interest rates and the rates offered by competitor export credit agencies, by adhering to the new consensus minimums based on the prevailing competitive conditions. After all, the Congress has directed the Bank to be competitive.

Third, the U.S. should begin preparations as soon as possible to pursue aggressively the objective of eliminating government subsidization of export credits in the next round of export credit talks next year.

If an agreement on the new consensus arrangement is not reached by June 15, we would urge the Administration to propose to the Congress an immediate $2 billion supplemental increase in the Bank's direct lending authority and to direct the Bank to derogate significantly on several appropriate lending transactions. The supplemental should be specifically earmarked to deal with cases involving predatory financing practices. These measures would give the Administration the "2-by-4" that Ambassador William E. Brock reportedly has said he needs to get nations to agree on export credit subsidy levels.

While legislative proposals, such as those introduced by Senator Heinz (S. 868 and S. 2600) and Congressman Neal (H.R. 3228), to authorize appropriations of $1 and $2 billion for a competitive export subsidy fund might be very desirable for the longer run, we believe that negotiators need to convince our competitors now that the U.S. is serious about confronting their predatory financing practices. The Heinz and Neal proposals are authorizations not appropriations and hence they would require further action before becoming a credible countermeasure.

Once granted, it is our fervent hope that these measures might never have to be used and thus they would have no added impact on the U.S. budget deficit. Our objective is to end the predatory export credit race and not to prolong it.

I thank the members of this subcommittee for giving me the opportunity to appear before you and I look forward to addressing your questions.

Attachment

## Appendix A

## COALITION FOR EMPLOYMENT THROUGH EXPORTS

### Membership as of June 1, 1982

A. Business Organizations

1. Aerospace Industries Association of America, Inc.
2. Air-Products & Chemicals, Inc.
3. Allis-Chalmers
4. ARMCO INC.
5. Bechtel Group, Inc.
6. The Boeing Company
7. Caterpillar Tractor Co.
8. CBI Industries, Inc.
9. Chemtex, Inc.
10. Cincinnati Milacron Inc.
11. Combustion Engineering, Inc.
12. Deere & Company
13. Dresser Industries, Inc.
14. Empire Machinery Co.
15. ENSERCH Corporation
16. First Wisconsin National Bank of Milwaukee
17. Fluor Corporation
18. Frederick Electronics
19. GATX Corporation
20. GTE Corporation
21. General Electric Company
22. Goulds Pumps, Inc.
23. Gulf & Western Industries, Inc.
24. Hughes Aircraft Company
25. Manufacturers Hanover Trust Company
26. McDonnell Douglas Corporation
27. Morgan Construction Company
28. Motorola Inc.
29. National Machine Tool Builders Association
30. PACCAR. Inc.
31. Pennsylvania Engineering Corporation
32. Raytheon Company
33. Rockwell International
34. The Signal Companies, Inc.
35. F. L. Smidth & Co., Inc.
36. Transamerica Delaval, Inc.
37. United Technologies Corporation
38. Wean United
39. Westinghouse Corporation
40. Wheelabrator-Frye

B. Labor Organizations

1. American Federation of Government Employees
2. Building and Construction Trades Department, AFL-CIO
3. Coalition of Labor Union Women

B. Labor Organizations

4. Communications Workers of America
5. Council of Engineers and Scientists Organizations
6. International Brotherhood of Electrical Workers
7. International Ladies Garment Workers Union
8. International Union of Electrical, Radio and Machine Workers
9. International Union of Operating Engineers
10. The Seafarers International Union of North America
11. United Association of Plumbers and Pipefitters
12. United Automobile, Aerospace and Agricultural Implement Workers of America
13. United Brotherhood of Carpenters and Joiners of America
14. United Steelworkers of America

C. Governors

1. Governor Bob Graham of Florida
   Chairman of the National Governors Association
   Committee on International Trade and Foreign Relations

2. Governor Lee Dreyfus of Wisconsin
   Vice Chairman of the Committee on International Trade
   and Foreign Relations

3. Governor John Spellman of Washington
   Chairman of the Task Force on Export Finance

Senator KASTEN. Mr. Garcia, thank you.

Everyone keeps referring to the testimony earlier "this morning." We began this afternoon, but I guess we are beginning to think it was this morning we were discussing it.

I am interested in your comment that no matter what happens on June 15 that really is not going to solve the problems. As you heard I suggested that as well.

You listened to the shopping list or list of suggestions from Mr. Cornell of Treasury.

Do you believe that of those lists that the most effective thing we could do would be to work with this fund to compete with the French and others on predatory financing or greatly expand the Eximbank potential, or do you think there are other things that we could do that would be equally effective such as shutting off acccess to our markets thrugh tariff or nontariff barriers or other tactics that we have seen the Japanese Government in particular are experts at?

This is an important market for them, but in the opinion of you and your membership the best thing and the most important thing we can do following June 15, would be to increase that war chest.

Or do you think some other measures would be more effective? Some of those decisions on that shopping list can be made by the executive branch with little or no time or work in the legislative branch.

When you talk about authorization and appropriation of an issue that is as controversial as this one is, and in this kind of budget the atmosphere I have been searching for ways we can possibly do things that don't require the appropriation of money, but can have an equally strong impact upon the Japanese and the French in particular.

Mr. **Garcia**. Senator, I think the measure that would make the most sense and give the clearest signal to our competitors would be to pass the $2 billion war chest bill as an immediate appropriation rather than authorization. I think that if we were to resort to cutting off our markets to their products, this would only serve as an excuse for them to cut their markets to our products.

In other words, raising barriers to imports would be viewed as a move that the United States is becoming protectionist and would give our competitors an excuse to do the same thing to us.

Our negotiatiors talk about resorting to the "deeper pocket" approach. That pocket is empty. In fact, it has a hole in it. Unless we close the hole and fill the pocket, I don't think that any country is going to take us seriously.

So in terms of both effectiveness, from the point of view of providing immediate support for our exporters, and demonstrating to our competitor nations that we are serious about taking action against their subsidized financing we clearly support increasing the lending capacity of the Eximbank.

Senator **Kasten**. Mr. Garcia, thank you. Thank you for your testimony before us today.

Mr. **Garcia**. Thank you, Mr. Chairman.

# EXPORT-IMPORT BANK OF THE UNITED STATES

## STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Senator KASTEN. Mr. William Draper. Mr. Draper is the President and Chairman of the Export-Import Bank of the United States and he has been patiently sitting through the various testimonies. I am sure a lot of it has been helpful. I am sure with part of it you felt a little bit like a dartboard. Nevertheless I am very, very pleased that you are here, and I thank you for the thoughtfulness of appearing and listening through this entire testimony.

You very easily could have walked in at this point and carried on. I think all of us appreciate the interest that you have shown by patiently sitting here listening and, I have observed, taking notes.

You have heard a number of complaints and a number of concerns. I think it is clear also there is strong support for a number of efforts the Bank is making. Everybody is just searching for better and for more, and I think in part you join that search.

I know you share the concern for jobs and employment and contracts that you have heard expressed today. So we look forward to your testimony and please proceed.

Mr. DRAPER. Thank you very much for inviting me.

I do want to say for the record that I think that these were very educational and important discussions. I thoroughly appreciated hearing every bit of it.

By the way, we are all on the same team. I think that should be stressed.

### IMPORTANCE OF EXPORTS TO U.S. ECONOMY

Mr. Chairman, when I last appeared before Congress in March of this year, I emphasized that the administration has taken a strong stand in favor of free trade and against artificial barriers and incentives that interfere with trade movement.

The last decade saw international trade become a major force in our Nation's economy. Exports are no longer a peripheral activity; they are part of the lifeblood of our country. In 1981, producers of manufactured goods for sale overseas supported 5 million American jobs, and the value of our total exports approached a quarter of a trillion dollars.

### ROLE OF EXIMBANK

Fortunately, the vast majority of the $233 billion in U.S. exports in 1981 went forward without any Government assistance at all. They were either sold for cash or were financed in the private market. This is as it should be. Eximbank is needed to help those export sales which are threatened by foreign official export credit subsidies, and to support those sales which the private sector is unwilling to finance because of unacceptable political or commercial risk.

Eximbank has a crucial effect on productivity, technology, and employment. In fiscal year 1981, Eximbank authorized nearly $12.9 billion in loans, guarantees, and insurance to assist export sales concluded during the year. Shipments of these exports began in 1981 and will continue for several years to come, meaning jobs for 360,000 Americans.

### COST OF FUNDING

When I became President and Chairman in July 1981, Eximbank was losing money. Projections showed we would lose $120 million in 1982 and would continue to lose heavily in the years ahead, decimating the $2 billion reserve which had been carefully built up since inception of the Bank. The situation was critical.

We had been forced to adopt the irresponsible subsidy policies of our competitors in Europe. France, for example, was lending at 7¾ percent, while paying 17 percent for its borrowings. We were lending at 8¾ to 9¼ percent while borrowing at rates approaching 14 percent.

We had to be competitive by our charter, but the negative interest spread was threatening the long-term viability of the Bank.

### INTERNATIONAL AGREEMENTS ON EXPORT CREDIT

There was only one sensible solution—international agreement. Eximbank and the Treasury Department immediately intensified negotiating efforts to bring about a reduction in export credit subsidies.

In August, we succeeded in getting the principal members of the Airbus consortium—France, West Germany, and the United Kingdom—to join with us in the first international accord governing interest rates and other terms for official financing of commercial jet aircraft exports.

Now, no country will charge less than 12 percent for this type of loan. This arrangement has worked and worked well. In one stroke we cut out about half of the projected subsidy for aircraft, a major part of our loan activity. We hope that this interim understanding will soon lead to market rates and market terms on all aircraft, thereby eliminating these subsidies altogether.

Regarding another important and costly export sector—nuclear power—we were able to reach agreement upon a common line with Canada, France, West Germany, Sweden, and Spain on financing terms for Mexico's purchase of nuclear power equipment.

All countries were to offer similar financing terms and a minimum interest rate of 12 percent. Although the project has been postponed by Mexico, we are hopeful that the common line we achieved will lead to an agreement on nuclear financing in general.

We also intensified negotiations within the Organization for Economic Cooperation and Development [OECD] to reduce export credit subsidies on other products. We were successful. The Eximbank led the way by independently raising our rates from 8¾ percent to 10¾ percent. Effective November 16, 1981, other OECD countries agreed to raise their minimum rates from 7½ percent to

10 percent. We then raised our rates to 12 percent and expect that the other countries will follow with another major step toward full market rates, despite some of the pessimism that has been expressed today.

The long-term financial projections for the Bank have improved with the instigation of our new interest rates and a new application fee. Moreover, if we reach our expectations at the negotiating table, the United States will be more competitive than ever in export credit financing, remembering we were always 1 percent above the foreign credit rate in the past when I joined the Bank.

You have already heard the details and status of the current negotiations, so I will not repeat them at this time. I would like, however, to discuss one aspect of the arrangement.

## YEN FINANCING FOR U.S. EXPORTS

Because domestic interest rates in Japan remain well below the interest rates of other countries, the treatment for yen financing would be continued in the arrangement. Under a proposed change, the minimum blended rate for Government and private yen financing would be three-tenths of a percent above Japan's long-term prime rate. At the present time, the long-term prime rate is 8.4 percent in Japan.

Eximbank reached an understanding recently with Japan's Ministry of Finance which allows us to begin guaranteeing loans denominated in Japanese yen to third-country buyers of U.S. products. In essence, U.S. exporters will be placed on an equal footing with their Japanese competitors in terms of the financing they can offer. This has already been put into effect and is in operation.

We have had a good response from both U.S. exporters and financial institutions doing business in Japan who are interested in providing the yen. I should add that even if the latest proposal is not agreed to by the member countries of the OECD, U.S. exporters will still be able to make use of the yen financing and still be on an equal footing with Japan.

## TARGETING POLICY FOR CREDIT NEEDS

We have also adopted changes in our policies to utilize our resources more effectively. We have developed a targeted approach that enables us to assess more accurately the amount of financing a U.S. supplier needs to compete for a particular export transaction. Under this approach, where we believe that direct loan support is appropriate, we will not hesitate to provide it. Conversely, as in the case of the 747's which have been mentioned, we will not provide a direct loan where a financial guarantee would preserve the competitiveness of the U.S. supplier, or no credit at all, no guarantee at all if we feel that that export would go forward regardless. Finally, we have developed the yen guarantee program to help us make still better use of the resources that are available to us.

### FISCAL YEAR 1983 BUDGET REQUEST

I would also like to say a few words about our budget request for fiscal year 1983. We are asking for the following:

$3.830 billion for direct loan obligations, which includes $3.730 billion for regular loans and $100 million for discount loans;

$8.0 billion for guarantees and insurance; and

$16.253 million for administrative expenses.

Although these figures include a reduction of $570 million from fiscal year 1982 levels in direct loans and a reduction of approximately $1.2 billion in guarantees and insurance, we believe that these resources will remain adequate to the demand placed upon them. With our targeted approach, the savings from eliminating support in areas where we are not needed, with the aircraft standstill agreement and improved terms of nuclear credits, Eximbank should be able to have sufficient amounts available for use in needier cases.

Given currently known business, the Bank should be able to provide competitive financing in those transactions where official credit support is necessary.

As the recession ends around the world, there may well be a demand for financing of foreign capital equipment purchases and project development that could exceed anything we have yet seen. Eximbank will be there to help those export sales which are threatened by foreign official export credit subsidies and to support export sales which the private sector is unable to finance because of unacceptable political or commercial risks.

Thank you, Mr. Chairman. I am now prepared to answer any questions that you or the members of your subcommittee may have.

[The statement of Mr. William H. Draper III, and the accompanying attachment, are as follows:]

## PREPARED STATEMENT OF WILLIAM H. DRAPER, III
### PRESIDENT AND CHAIRMAN
### EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee:

When I last appeared before Congress in March of this year, I emphasized that the Administration has taken a strong stand in favor of free trade and against artificial barriers and incentives that interfere with trade movement. I want to do so again. In particular, we consider export credit subsidies to be an unwarranted and extravagant interference with the operation of the private market, and negotiations to reduce export credit subsidies have been a top priority with this Administration. I would like to report to you our latest efforts to reduce them.

At the present time, the 22 member countries of the Organization for Economic Cooperation and Development are considering a proposal which would further reduce the degree of subsidy under the International Arrangement. While the proposal falls short of our original objectives, we are willing to accept it as have most of the other delegations. However, the European Community has requested a postponement of the deadline for reply from May 25 until June 15.

Under the proposal, the interest rate for "relatively rich" countries would be increased by 1.25 percentage points from 11 to 12.25 percent for loans with a term of from two to five years and from 11.25 to 12.50 percent for loans with a term of over five to eight and a half years. For "intermediate" countries the interest rate would increase from 10.5 to 11 percent for loans with a term of from two to five years and from 11 to 11.6 percent for loans over five to eight and a half years. No change would be made in interest rates applicable to the "relatively poor" countries.

In addition, for the first time since the Arrangement went into effect in 1975, revisions would be made in the three categories by which countries are classified. The number of countries in both the "relatively rich" and "intermediate" categories would increase as a result. With Brazil, Mexico, South Korea, Taiwan, Nigeria, Morocco and Peru being reclassified as "intermediate" countries, the majority of Eximbank borrowers would now fall into that category.

Because domestic interest rates in Japan remain well below the interest rates of other countries, the treatment for yen financing would be continued in the Arrangement. Under a proposed change, the minimum blended rate for government and private yen financing would be .3 percentage points above Japan's long-term prime rate. At the present time, the long-term prime rate is 8.4 percent.

Eximbank reached an understanding recently with Japan's Ministry of Finance which allows us to begin guaranteeing loans denominated in Japanese yen to third country buyers of U.S. products. In essence, U.S. exporters will be placed on an equal footing with their Japanese competitors in terms of the financing they can offer. We have had a good response from both U.S. exporters and financial institutions doing business in Japan who are interested in providing the yen. And I should add that even if the latest proposal is not agreed to by the member countries of the OECD, U.S. exporters will still be able to make use of yen financing.

Looking back over the last year that I have been Chairman of Eximbank, I think we can say that we have made considerable progress in reducing credit subsidies. The proposed increases in interest rates follow closely upon two previous increases, all of which came about as a result of the U.S. Government's vigorous leadership. We have gone from a range of 7.5 to 8.75

percent when I arrived -- which was virtually the level of interest rates in 1975 -- to a range of 10 to perhaps 12.5 percent. In short, we are much closer to market rates.

In addition, last year we reached an understanding with the European governments involved in the Airbus consortium that there will be a minimum rate of 12 percent for aircraft financing. We have also agreed to reduce the amount of government financing that can be offered from the previous ceiling of 85 to 42.5 percent. This means that in aircraft deals Eximbank can now be competitive by providing only half the funds it had to offer in the past.

Regarding another important and costly export sector -- nuclear power -- we were able to reach agreement upon a common line with Canada, France, West Germany, Sweden and Spain on financing terms for Mexico's purchase of nuclear power equipment. All countries were to offer similar financing terms and a minimum interest rate of 12 percent. Although the project has been postponed by Mexico, we are hopeful that the common line we achieved will lead to an agreement on nuclear financing in general. It should be as useful in reducing subsidies as the one we achieved for aircraft last year.

Despite the progress we have made in reducing export subsidies, we recognize that Eximbank will continue to play a vital role in enabling U.S. suppliers to compete for business overseas. To understand how we are carrying out that role, we must keep in mind the President's economic recovery program and the Administration's overall trade policy.

Like other government agencies Eximbank is doing its part to help reduce overall government spending and minimize the distortions in the nation's capital markets created by massive federally guaranteed borrowing programs. But what others may consider a burden, we see as a challenge -- to do more with less. We've instituted a number of policy changes which are aimed at prudently and efficiently managing our funds to improve the Bank's ability to meet foreign export competition.

We have been conserving resources by eliminating the areas where our assistance is not needed so that we can use it where it will make a difference. Generally, we have not been supporting sales to rich countries, and we have been limiting our assistance for aircraft cases to financial guarantees except for wide-bodied medium-range and new generation aircraft. At the same time, we have developed a targeted approach that enables us to assess more accurately the exact financing a U.S. supplier needs to compete for a particular export transaction. Finally, we have developed new programs like the yen guarantee program to help us make better use of the resources that are available to us.

Under our targeting approach, where we believe that direct loan support is appropriate, we will not hesitate to provide it. In a recent sale of generators to Peru, we increased our cover from our typical range of 42.5 to 65 percent to 75 percent (with a supplier participation of 10 percent guaranteed by Eximbank) but kept our interest rate at our then prevailing rate of 10.75 percent in the face of heavy competition, including a 7.75 percent interest rate from France. Even with our higher interest rate, we felt our additional cover would sufficiently offset the other offer, and the U.S. exporter did in fact win the sale.

A nuclear power project in Taiwan costing well in excess of a billion dollars was up for international bidding. With subsidized financing being offered by our foreign counterparts, Eximbank assistance was critical, and we issued one of our largest preliminary commitments. I am pleased to report that Taiwan has recently announced that the United States has been awarded the bulk of the project.

Another example of our targeting approach involved a sale to Norway, a rich country where, as I said earlier, we would generally not have offered direct credits. But a U.S. company was locked in intensive competition over a large helicopter procurement. To help, we improved our package, and the U.S. supplier won despite heavily subsidized French financing.

Conversely, we will not provide a direct loan where a financial guarantee would suffice to preserve the competitiveness of the U.S. supplier. A recent example involved a bid by Hughes Aircraft Company on a $200 million sale of satellites and tracking and command stations in Australia. Our Board of Directors was convinced that Australia, despite the offer of highly subsidized financing from European governments, was aware of the superiority of U.S. technology and experience. Hughes was likely, therefore, to win the sale without the need for an Eximbank credit, and the Board offered only a guarantee of financing provided at market rates. Hughes did indeed win this important contract, and we were able to save direct credit resources for use in other needier cases.

In FY 1981, in spite of our budgetary and operating constraints, Eximbank authorized nearly $12.9 billion in export credit, guarantees and insurance which will be associated this year and in following years with approximately $15 billion of U.S. exports and 360,000 jobs. Eximbank also benefits the thousands of small businesses and other suppliers who are subcontractors to major exporting companies. For example, in FY 1981, the Bank supported the export sale of 125 jet aircraft valued at $5.2 billion. Most of the jobs involved in these sales were in the home states of the airframe and engine manufacturers -- Boeing in Washington, McDonnell Douglas and Lockheed in California, G.E. in Ohio and United Technologies in Connecticut. But these manufacturers subcontract substantial work to suppliers in all 50 states. Nearly 4,000 suppliers in 47 states received more than $2.5 billion in orders from Boeing alone during FY 1981. More than 2,700 of these companies are small businesses.

Let me turn now to FY 1983. We are requesting:

-- $3.830 billion for direct loan obligations, which includes $3.730 for regular loans and $100 million for discount loans;

-- $8.0 billion for guarantees and insurance; and

-- $16.253 million for administrative expenses.

Although these figures include a reduction from FY 1982 levels of $570 million in direct loans and approximately $1.2 billion in guarantees and insurance, we believe that our resources will remain adequate to the demand placed upon them. With our targeted approach, the savings from eliminating support in areas where we are not needed, the aircraft standstill agreement and improved terms of nuclear credits, Eximbank should be able to have sufficient amounts available for use in needier cases. Given currently known business, the Bank should be able to provide competitive financing in those transactions where official credit support is necessary.

Regular Loans

The Bank is requesting $3.730 billion for regular loans. This is $270 million less than the FY 1982 regular loan budget approved by Congress. Under the Bank's regular loan program, Eximbank supports exports of items requiring repayment terms of five years or more.

The interest rate we charge on our loans is reviewed periodically by our Board, taking into account our average cost of funds and developments in foreign export credit competition. In recent years our marginal cost of borrowing has exceeded our lending rate. Moreover, financial projections have shown that the Bank would be faced with large deficits which would seriously erode the Bank's reserves unless measures were taken to increase income. Accordingly, the Board of Directors raised the interest rate on regular loans to 12 percent last year.

In addition, in order to improve the Bank's net income immediately, a 2 percent application fee for each credit was instituted. Despite these measures, I expect that in FY 1982 Eximbank will have its first net loss which may even exceed the $120 million which I mentioned at hearings last summer before the Senate Banking Committee.

Discount Loans

The Bank is requesting $100 million for the discount loan program for FY 1983. This represents a $300 million reduction from last year's level of $400 million. Because funds disburse much faster in this program than in our direct loan program, the budget savings from this reduction are much more immediate than cuts in our other programs. By proposing this reduction we are again trying to do our part to hold down the federal deficit, while still trying to target some funds into sectors that most need our support. Small businesses will be given priority in using these funds.

Guarantees and Insurance

Eximbank's FY 1983 budget provides $8.0 billion for guarantee and insurance commitments. We believe that this level will be sufficient to meet the demand. At this time, insurance and guarantee activity is running below the actual levels for 1981, which totaled $7.4 billion.

The Bank has several types of guarantee and insurance programs. Financial guarantees are offered on funds which are participating with the Bank in a financing package under the regular loan program, or are offered in lieu of a direct loan where we believe the transaction can be financed solely by the private market. Medium-term bank guarantees cover goods and services which customarily move on terms of 181 days to five years. Insurance programs cover both short-term (up to 180 days) and medium-term transactions and are operated in cooperation with the Foreign Credit Insurance Association, an association of some 50 private marine and casualty insurance companies. The Bank is currently engaged in a review of present programs to determine whether actions can be taken to increase the private sector's activity in these areas without recourse to the Bank.

Let me conclude my statement today by saying that in 1982, we are continuing to meet the challenge of doing more with less by negotiating further reductions in export credit subsidies and by adopting new policies that are enabling us to take a targeted approach to the use of our funds and make better use of them.

As the recession ends around the world, there may well be a demand for financing of foreign capital equipment purchases and project development that could exceed anything we have yet seen. The role of government basically is to provide the sound economic base from which private capital markets can meet the growing needs of both domestic and international finance. But Eximbank will also be there to help export sales which are threatened by foreign official export credit subsidies and to support export sales which the private sector is unable to finance because of unacceptable political or commercial risks. In summary, Eximbank intends to make sure that U.S. exporters get their fair share in the coming years of the equipment that will be purchased and the projects that will be developed throughout the world.

Thank you, Mr. Chairman. I am now prepared to answer any questions that you or the members of your Subcommittee may have.

# EXPORT-IMPORT BANK OF THE UNITED STATES

## REPORT TO THE CONGRESS
## ON EXIMBANK'S BUDGET ESTIMATES
## FOR
## FISCAL YEAR ENDING SEPTEMBER 30, 1983

### BOARD OF DIRECTORS

| | |
|---|---|
| William H. Draper III | President and Chairman of the Board |
| Charles E. Lord | First Vice President and Vice Chairman |
| Margaret W. Kahliff | Director |
| James E. Yonge (Nominated) | Director |
| Richard W. Heldridge (Nominated) | Director |

### OFFICERS

| | |
|---|---|
| William H. Draper III | President and Chairman of the Board |
| Charles E. Lord | First Vice President and Vice Chairman |
| Warren W. Glick | General Counsel |
| John D. Bierman | Senior Vice President - Exporter Credits, Guarantees and Insurance |
| John M. Duff, Jr. | Senior Vice President - Direct Credits and Financial Guarantees |
| James K. Hess | Treasurer-Controller (Acting) |
| Joan P. Harris | Secretary |

## FISCAL YEAR 1983 BUDGET

The Export-Import Bank is chartered by Congress in the Export-Import Bank Act of 1945, as amended. Its basic purpose is to aid in financing and to facilitate the export of U. S. goods and services. To carry out its programs in FY 1983, the Bank requests:

--- $3.730 billion for regular loan obligations;

--- $100 million for discount loan obligations;

--- $8.000 billion for guarantee and insurance commitments; and

--- $16.253 million for administrative expenses.

## PRELIMINARY COMMITMENTS

Under the Bank's Preliminary Commitment procedure Eximbank will, upon request, outline in a preliminary commitment letter the terms and conditions of the financial assistance it would be prepared to consider on a sale of U.S. goods and services to a foreign purchaser. The applicant must provide information sufficient to enable Eximbank to appraise the technical, economic, and financial aspects of the proposed project.

This program has been of great assistance to many U.S. exporters in their overseas sales efforts. In addition, it provides Eximbank with a good indication of the amount of credit assistance which it may be called upon to provide in support of U.S. exports.

## REGULAR LOAN PROGRAM

Regular loans under the Bank's Participation Financing Program assist exports of items generally requiring repayment terms of more than 5 years, such as equipment for ground and air transportation, mining, and electric power projects.

The purpose of this program is to supplement and encourage private sources of financing when the private sector is unwilling or unable to:

1. provide U.S. exporters with terms and conditions which are competitive with those offered by foreign government-supported competition.
2. extend their normal repayment terms to those necessary and appropriate for the financing of capital equipment, and
3. make the entire loan because of commercial and political risks or other reasons.

The Bank normally requires a minimum cash payment of 15% and shares the financing of the remaining 85% with commercial sources of funds -- Eximbank generally loaning from 30% to 65% or more of the total. In many cases, Exim is willing to offer a financial guarantee to the commercial banker to cover political and credit risk of non-payment of the private portion of the financing package.

The interest rate charged by Eximbank is generally 12% on all regular loans, which is lower than the Bank's marginal cost of funds.

This interest rate is necessary to enable U.S. exporters' financing packages to be competitive with foreign officially-supported export financing packages.

In FY 1981, the Bank authorized $5,079 million in regular loans. In FY 1982, regular loan authorizations are estimated to decrease to $4,000 million. A further decrease in authorizations to $3,730 million in FY 1983 is budgeted.

## DISCOUNT LOAN PROGRAM

The purpose of the Discount Loan Program is to overcome limitations in the private market's ability to provide attractive fixed rate medium term financing for U.S. export sales by providing U.S. commercial banks with a fixed rate standby loan commitment at a rate which is 1% less than the Banks' rates to their customers, but in no event is lower than our direct credit rate which is currently 12%. Because of the substantial fluctuations in the cost of funds to commercial banks, they are reluctant to provide fixed interest rates on medium term transactions. In many instances, however, fixed rate financing is necessary for the U.S. exporter to obtain a foreign order.

The Eximbank commitment provides the necessary protection for the commercial bank to extend financing at a fixed rate for up to five years. The commercial bank must certify that it would not be able to make a fixed rate loan without an Eximbank advance commitment. The buyer is also required to make a minimum 15% cash downpayment.

In FY 1981, the Bank authorized $352 million of net advance commitments for discount loans. Disbursements under this program, however, totalled only $273 million in FY 1981 and $242 million the previous year. Consequently, the authorization levels do not imply an equivalent amount of Federal credit but rather a standby commitment which generates a flow of private credit in support of U.S. exports.

Discount loan authorizations are estimated to be $400 million for FY 1982. They are budgeted to decrease to $100 million for FY 1983.

## GUARANTEE AND INSURANCE PROGRAMS

Under the guarantee and insurance programs, the Bank increases private financial participation in U.S. export sales by insuring banks and exporters against commercial and political risks involved in export transactions. Since financing is a critical element in many export sales, these programs help exporters to increase export sales through increased availability of financing from private capital markets.

Under the Financial Guarantee Program, Exim guarantees repayment of commercial bank financing of larger export sales. Usually the total financing package involves a direct credit from Exim under the Participation Financing Program described previously.

The FY 1983 budget provides for $8,000 million in guarantee and insurance authorizations.

## RESULTS OF OPERATIONS

Eximbank does not operate with appropriated funds, but is a self-sustaining government corporation.

The Bank's projected income statements indicate a decrease in income which started in FY 1980 and is expected to continue for several years. In FY 1982 a net operating deficit is anticipated for the first time. Net income for FY 1981 was $12 million, a decrease from the FY 1980 level of $110 million. The Bank is projecting an operating deficit of $117 million in FY 1982, and a further decline to a deficit of $216 million in FY 1983.

The Bank's reserves are currently projected to be $1,866 million as of September 30, 1983. This reserve is adequate to sustain Eximbank's operations for any foreseeable period of time.

This projected decline in income is based largely on the increased interest expense costs on Exim's borrowings, and not on any deterioration in the Bank's portfolio. Eximbank borrows funds at market rates of interest. Thus the recent high levels of U.S. interest rates have had a significant effect on the cost of Eximbank's operations. The interest rates charged on Exim's quarterly long-term borrowings have risen from a 9-1/2% level in 1979 to an average of 13.90% for the past 12 months. However, the weighted average of all Exim's outstanding debt is well below recent market levels, since the Bank still has some outstanding debt from prior years.

## WRITE-OFF'S, CLAIMS PAID AND DELINQUENCIES

Eximbank has had an excellent repayment record under its loan program. Since the inception of the Bank through fiscal year 1981, only $11.0 million in loans have been written off. Recoveries of $2.7 million have been realized on these write-off's however, resulting in a net of $8.3 million, which has been charged against the Bank's net income in the years incurred. In FY 1981, no loans were written off. A possibility of write-offs due to the default of Laker Airways exists, although at this point it is unclear as to what the final disposition will be.

Net claims paid under guarantee and insurance programs have also been small. Since inception, the Bank has paid $142.1 million in claims but has recovered $63.1 million, leaving a net of $79.0 million which has been charged to net income in the years incurred. Claims paid in FY 1981 totalled $9.6 million and recoveries $6.3

million, leaving a net of $3.3 million charged to net income during the year.

At September 30, 1981, Eximbank had outstanding loans of $15.8 billion of which $888 million had at least one delinquent installment of 90 days or more and $715 million had one or more maturities rescheduled.

Eximbank does not anticipate that its future claims and losses record will be materially different from its excellent past record.

## EXPORT EXPANSION FACILITY

Public Law 90-390, enacted by Congress on July 7, 1968, established the policy of Congress "that the Export-Import Bank of the United States should facilitate through loans, guarantees and insurance (including co-insurance and reinsurance) those export transactions which, in the judgment of the Board of Directors of the Bank, offer sufficient likelihood of repayment to justify the Bank's support in order to actively foster the foreign trade and long-term commercial interest of the United States".

Loans and guarantees authorized under the EEF carry the same interest rate and repayment terms as are standard for the particular type of goods or services financed or guaranteed under Eximbank's other programs. During FY 1981 $18.6 million in loans and $57.8 million in guarantees and insurance were authorized under the Export Expansion Facility. As of December 31, 1981, charges against the $500 million statutory EEF limitation totalled $189.4 million.

## EXPORTS TO COMMUNIST COUNTRIES

The Export-Import Bank Act of 1945, as amended, prohibits Eximbank from guaranteeing, insuring, or extending credit, or participating in any extension of credit, in connection with the purchase or lease of any product by a Communist country, or the purchase or lease of a product to be principally used in, resold to or leased to a Communist country, unless the President determines such assistance to be in the national interest. It also requires the President to make separate national interest determinations for any loan of $50 million or more to a Communist country.

As of the end of FY 1981, Eximbank programs were available in Yugoslavia, Romania, Hungary and the Peoples Republic of China. Following President Reagan's statement of December 23, 1981, Eximbank is no longer providing credits, guarantees or insurance in support of U.S. exports to Poland.

Legislation enacted in FY 1975 placed additional restrictions on Eximbank support of U.S. exports to Communist countries. The Trade Act of 1974 (P.L. 93-618) contains a provision which prohibits any nonmarket economy country (except those already granted most favored nation status) from participating in any program of the U.S. Government which extends credits or credit guarantees until the President has submitted to Congress a report indicating that such country does not (1) deny its citizens the right or opportunity to emigrate; (2) impose more than a nominal tax on emigration or documents required for emigration; or (3) impose more than a nominal tax on any citizen as a consequence of the desire of such citizen to emigrate. These provisions can be waived by the President under certain circumstances. On April 24, 1975 the President signed such a waiver for Romania, on April 7, 1978 for Hungary and on October 23, 1979 for China. Since the provisions of the Trade Act did not apply to Poland and Yugoslavia, which had most favored nation status, both countries continued to be eligible for Eximbank financing under the earlier Presidential Determinations. Currently, because of the Trade Act provisions, the U.S.S.R. is not eligible for Eximbank programs.

In FY 1981 the Bank authorized the following in support of U.S. exports: to Poland, $13.4 million in guarantees and insurance; to Yugoslavia, loans of $32.5 million and $46.4 million in guarantees and insurance; to Romania, loans of $120.7 million and $77.6 million in guarantees and insurance; to China, $57.1 million in loans.

## ADMINISTRATIVE EXPENSES

For FY 1983, the Bank is requesting $16.253 million for administrative expenses. This increase over the $15.115 million for FY 1982 is caused entirely by a substantial increase in rental charges by the General Services Administration. These rental charges are budgeted at $979,000 for FY 1982 but will be going up by 144% to $2,386,000 in FY 1983.

The budgeted full-time equivalent personnel level for FY 1983 is 344 -- a decrease of 16 from the FY 1982 level.

The Bank is requesting a limitation of $24,000 for entertainment expenses in FY 1983. Such expenses are within the Bank's overall administrative expense allocation.

## REQUESTED LIMITATION ON DIRECT LOANS AND LOAN GUARANTEES

The Export-Import Bank of the United States is authorized to make such expenditures within the limits of funds and borrowing authority available to such corporation, and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations, as provided by section 104 of the Government Corporation Control Act, as may be necessary in carrying out the program set forth in the budget for the current fiscal year for such corporation: Provided, That none of the funds available during the current fiscal year may be used to make expenditures, contracts, or commitments for the export of nuclear equipment, fuel, or technology to any country other than a nuclear weapon State as defined in Article IX of the Treaty on the Non-Proliferation of Nuclear Weapons eligible to receive economic or military assistance under this Act that has detonated a nuclear explosive after the date of enactment of this Act. During the fiscal year [1982] 1983 and within the resources and authority available, gross obligations for the principal amount of direct loans shall not exceed [$4,400,000,000] $3,830,000,000. During the fiscal year [1982, total commitments to guarantee loans shall not exceed $9,220,000,000 of contingent liability for loan principal] 1983, commitments to guarantee loans may be made only to the extent that the total loan principal any part of which is to be guaranteed, shall not exceed $8,000,000,000. (The Export-Import Bank Act of 1945, as amended; Foreign Assistance and Related Programs Appropriations Act, 1982).

## EXPORT-IMPORT BANK OF THE UNITED STATES

### BUDGET REQUEST

($ in thousands)

| | FY 1981 Actual | FY 1982 Estimate | FY 1983 Estimate |
|---|---|---|---|
| Direct Loan Authorizations: | | | |
| Regular Loans | $5,079,207 | $4,000,000 | $3,730,000 |
| Discount Loans | 351,573 | 400,000 | 100,000 |
| TOTAL | $5,430,780 | $4,400,000 | $3,830,000 |
| Guarantee and Insurance Authorizations: | | | |
| Financial Guarantees | $ 890,336 | $ 845,000 | $ 845,000 |
| M/T Guarantees | 615,948 | 805,000 | 805,000 |
| FCIA Insurance | 5,910,036 | 6,350,000 | 6,350,000 |
| TOTAL | $7,416,320 | $8,000,000 | $8,000,000 |

## EXPORT-IMPORT BANK OF THE UNITED STATES

### POSITION WITH RESPECT TO LENDING, GUARANTEE AND INSURANCE AUTHORITY

(In millions of dollars)

| | 1981 Actual | 1982 Estimate | 1983 Estimate |
|---|---|---|---|
| Statutory authority...................... | $40,000.0 | $40,000.0 | $40,000.0 |
| CHARGES AGAINST AUTHORITY: | | | |
| Loan program: | | | |
| Outstanding Loans.................. | 15,802.4 | 17,523.4 | 19,203.4 |
| Undisbursed Loans.................. | 9,147.0 | 9,313.0 | 8,644.0 |
| Subtotal.......................... | 24,949.4 | 26,836.4 | 27,847.4 |
| Guarantee and Insurance Programs: | | | |
| Medium-Term Guarantees.............. | 1,675.7 | 1,796.9 | 1,911.9 |
| Medium-Term Insurance............... | 222.6 | 281.4 | 335.1 |
| Short-Term Insurance................ | 1,465.9 | 1,679.7 | 1,907.2 |
| Subtotal.......................... | 3,365.2 | 3,758.0 | 4,154.2 |
| Total charges against authority... | $28,313.6 | $30,594.4 | $32,001.6 |
| Unused authority.................. | $11,686.4 | $ 9,405.6 | $ 7,998.4 |

# REQUESTED LIMITATION ON ADMINISTRATIVE EXPENSES EXPORT-IMPORT BANK OF THE UNITED STATES FOR FISCAL YEAR ENDING SEPTEMBER 30, 1983

Not to exceed [$15,115,000] $16,253,000 (to be computed on an accrual basis) shall be available during the current fiscal year for administrative expenses, including hire of passenger motor vehicles and services as authorized by section 3109 of title 5, United States Code, and not to exceed [$16,000] $24,000 for entertainment allowances for members of the Board of Directors: Provided, That (1) fees or dues to international organizations of credit institutions engaged in financing foreign trade, (2) necessary expenses (including special services performed on a contract or fee basis, but not including other personal services) in connection with the acquisition, operation, maintenance, improvement, or disposition of any real or personal property belonging to the Export-Import Bank or in which it has an interest, including expenses of collections of pledged collateral, or the investigation or appraisal of any property in respect to which an application for a loan has been made, and (3) expenses (other than internal expenses of the Export-Import Bank) incurred in connection with the issuance and servicing of guarantees, insurance, and reinsurance, shall be considered as nonadministrative expenses for the purposes of this paragraph. (Foreign Assistance and Related Programs Appropriations Act, 1982.)

## EXPORT-IMPORT BANK OF THE UNITED STATES

### Comparative Statement of Administrative Expenses
(In thousands of dollars)

| | FY 1981 Actual | FY 1982 Estimated | FY 1983 Estimated |
|---|---|---|---|
| Personnel compensation: | | | |
| Full-Time permanent positions......... | $ 9,968 | $10,430 | $10,238 |
| Non Full-time in permanent positions.. | 207 | 215 | 217 |
| Overtime............................ | 38 | 112 | 112 |
| All Other........................... | 135 | 269 | 240 |
| | 10,348 | 11,026 | 10,807 |
| Personnel benefits contribution: | | | |
| Retirement.......................... | 710 | 757 | 744 |
| Health benefits..................... | 197 | 210 | 206 |
| Employee life insurance............. | 26 | 28 | 28 |
| FCIA taxes.......................... | 3 | 3 | 3 |
| All Other........................... | - | 2 | 2 |
| | 936 | 1,000 | 983 |
| Travel and transportation of persons.... | 290 | 453 | 453 |
| Transportation of things................ | 8 | 5 | 5 |
| Rent, communications and utilities: | | | |
| Rent, office space.................. | 939 | 979 | 2,386 |
| Communications...................... | 464 | 520 | 535 |
| Postage............................. | 55 | 70 | 75 |
| All Other........................... | 296 | 377 | 349 |
| | 1,754 | 1,946 | 3,345 |
| Printing and reproduction............... | 65 | 110 | 110 |
| Other services: | | | |
| Contractual services and supplies..... | 211 | 338 | 305 |
| Official entertainment................ | 5 | 16 | 24 |
| | 216 | 354 | 329 |
| Supplies and materials.................. | 160 | 221 | 221 |
| Total expenses.......................... | $13,777 | $15,115 | $16,253 |
| Savings................................. | 679 | - | - |
| Budget Limitation | $14,456 | $15,115 | $16,253 |

## COMMENTS ON PREVIOUS TESTIMONY

Senator **Kasten**. Thank you.

For the record, the subcommittee would like to have your responses to a number of concerns and complaints and issues that were raised by the previous witnesses. What we will do is furnish you a copy of the transcript, as well as copies of the prepared statements and allow you and your staff to work through some of the questions.

Then we will make your responses on a number of the specific points available basically to everyone. That document itself will be of great interest to all of us. It will be included in the subcommittee record and distributed.

[The information follows:]

COMMENTS OF EXIMBANK ON POINTS RAISED BY INDUSTRY WITNESSES

POINT: $3.8 billion of credit authority is not sufficient to provide competitive support to all cases, in both the medium- and long-term areas, facing subsidized foreign official export credit competition in FY83.

COMMENT: The demand for Eximbank credit resources is highly correlated - with a lag of around one year - with the ebb and flow of global business cycles. In the context of global economy that is presently at the bottom of a cycle and expected to climb very slowly over the next year, $3.8 billion in credit resources during FY83 is sufficient. Specifically, although aircraft is expected to take its "typical" quarter of authorizations (i.e. roughly $1.0 billion), there is no anticipated nuclear authorization; and reflecting the lagged correlation of Eximbank activity, other sectors are expected to continue their slide from the 1981 peak (i.e., $4.1 billion in 1981, $3.2 billion in 1982, and some $2.5 billion in 1983). The remaining $300-500 million should enable U.S. exporters to be competitive in the medium-term arena.

POINT: The best way for the Export-Import Bank to be able to meet every foreign export loan with a fully competitive U.S. loan is to remove the Export-Import Bank from the annual Federal budget.

COMMENT: Eximbank does not believe it is appropriate as a matter of sound fiscal policy for its receipts and disbursements to be removed from the Federal budget. Such an action would not significantly enhance the existing flexibility of the Bank. It would, however, loosen controls over the budget process as it relates to Eximbank and could result in Congress having an incomplete picture of the total amount of federal credit assistance made available during any fiscal year. Excluding the Bank from the budget would understate the budget in terms of budget authority and outlays.

Removal of the Bank from the budget is not consistent with the overall Federal credit control system supported by the Administration and could be viewed as a precedent for other agencies. Regardless of whether the Bank's activities are formally included in the budget, it will continue to compete for real economic resources with all other government entities. Consequently, in setting appropriate program activity levels for the Bank, both the President and Congress will still have to look at Eximbank within the context of Federal credit assistance in general.

POINT: Eximbank's three-fold strategy of targeting resources, negotiating to reduce export credit subsidies and maintaining a sound financial condition is equivalent to unilateral military disarmament.

COMMENT: In the past year, Eximbank has been following three major policies. First, it has adopted a targeting approach with regard to the transactions which it will finance. Second, it has sought to negotiate reductions in export credit subsidies with other official export credit instrumentalities. Third, it has taken an number of actions to place its operations on a sound financial footing.

Recently, arguments have been made that the simultaneous workings of these three policies have resulted in "unilateral disarmament" on the part of Eximbank in the effort to negotiate an end to export credit subsidies and that the Bank has not been able to provide U.S. exporters with competitive financing offers. It is Eximbank's view that in fact its policies have worked well -- credit resources have been used where they should be used, the international negotiations have been successful and the Bank is in a sounder financial condition.

Under its targeting approach, Eximbank has tried to assess accurately the financing a U.S. supplier needs for a particular export transaction to compete against foreign suppliers armed with credits subsidized by their governments. Where direct loan support seems appropriate, Eximbank has not hesitated to provide it. But it will not make such financing available when it is not needed to enable the U.S. exporter to win the business. In this way, the Bank has met the needs of individual U.S. suppliers, while at the same time it has conserved scarce budgetary resources so that Eximbank's financial support can be made available to as many suppliers as possible.

Through negotiations concluded in early July of this year, Eximbank has achieved substantial equivalence in financing costs, and foreign exporters do not have a financial edge over their counterparts in the United States. The Bank's efforts have resulted in substantial increases in new minimum interest rates under the International Arrangement, effective July 6, 1982, which sould cause a 50% decrease in the amount of export subsidy in official export credit financing. For example, a year ago the rate most commonly offered by the Bank's counterparts was 7.75%, while today the comparable rate on new offers is approximately 11%.

In recent years the Bank's marginal cost of borrowing has substantially exceeded its lending rate by as much a 4 or 5%. Financial projections have shown that the Bank would be faced with large deficits which would have seriously eroded the Bank's reserves unless measures were taken to increase income. By raising its lending rate to a level that more accurately reflects its cost of borrowing money, the Bank has been able to pursue a prudent financial course. Even with these measures, however, Eximbank is still likely to face substantial losses in the next few years.

The three major policies adopted and implemented by the Bank in the past year have provided major benefits to U.S. exporters whom the Bank is designed to serve. The Bank's resources have been conserved to be available to assist U.S. exporters where financing consideration are paramount. The negotiations have resulted in a dramatic increase in the interest rates charged by the Bank's competitors so that the Bank's financing offers are competitive with those offered by its foreign counterparts. Finally, the Bank's financial condition has been improved so that exporters can continue to expect effective financial support from the bank in the years ahead.

POINT: Under Eximbank's operational policies there are no grandfather deals carried over.

COMMENT: Under the International Arrangement, offers made prior to the date of effectiveness of new rates may remain in effect at the old rates -- that is, they are permitted to be "grandfathered." In practice, this has meant that in a number of cases Eximbank's counterparts have been able to make financing offers at rates that would otherwise have been considered in violation of the International Arrangement and that are more favorable than those Eximbank has been able to offer.

Participants in the International Arrangement agreed in November 1981 and again in May 1982 to limit the period for which financing offers may remain in effect to six months, at the end of which they will be adjusted to reflect new minimum rates. Thus, while a few offers may be outstanding at old rates whenever the minimum rates are changed, none should remain in effect six months later. In the case of the understanding on commercial jet aircraft, for example, all European "grandfathered" cases had become firm business or expired by March 1982.

POINT: Eximbank does not offer credits to Borrowers in developed countries.

COMMENT: There are two reasons that, as a general guideline, Eximbank presumes that competitive financing is not a major determinant in sales into developed countries. First, most developed country buyers are firms that must generate a profit to remain viable. Such firms typically are more concerned with technical quality than the cost differences associated with export credit. Second, subsidized export credit is prohibited between the 10 countries of the European Community (EC). Hence, in most instances of sales into the EC, there is unlikely to be a serious competitor offering subsidized export credit.

POINT: The implementation of a 2% up-front fee has caused Eximbank to be noncompetitive.

COMMENT: Eximbank now charges a 2% application fee which is similiar to fees charged by commercial banks in the U.S. and Europe, as well as the World Bank. It is equivalent, in terms of dollars paid by the borrower, to a 0.50% increase in the interest rate and when combined with other fees generally charged results in a maximum cost to the borrower of 0.85% annually.

Most other governments, particularly in Europe, provide export credits through their commercial banking system and permit those banks to charge similiar fees. The governments also charge insurance fees. The total annualized fees charged by our competitors range from 0.40% in Japan to 1.75% in the United Kingdom. Eximbank's annualized fees are lower than those charged by all other export credit agencies except Japan.

### EXTENSION OF CREDIT ARRANGEMENT

Senator **Kasten**. I have a couple of specific points that I want to ask about.

First of all, do you share my pessimistic analysis of the present negotiations which are to come to an end on June 15? Do you share the same kind of basic feeling that the members of the Treasury Department do?

Mr. **Draper**. Having been a key part of the negotiating team and very involved in the entire negotiations, I don't think it is appropriate for me to comment except to say that I am hopeful that we will get an agreement and that it will be accepted on the 15th of the month.

Senator **Kasten**. Under the assumption that we will not get an agreement, have you and others at the Eximbank prepared in the same way that the Treasury Department indicated they were prepared to go forward with a number of strict, quick steps in order to somehow get us out from under the difficulties that we are having as we lose business because of predatory financing?

Mr. **Draper**. I think they said they were prepared to study a variety of different options and we are too. We have already begun that process.

Senator **Kasten**. They said they have given that a good bit of study, and they were prepared to go forward relatively quickly and aggressively.

Are you prepared to go forward relatively quickly and relatively aggressively and would you be urging the administration and OMB to increase, either through supplemental appropriation or normal process, the funding level for the Eximbank?

Mr. **Draper**. I would rather not comment on the latter part. I would say that we are prepared to go ahead on any new programs that do seem appropriate after we have had a complete chance to study them. We have not yet reached any conclusions.

### EX-IM RESPONSE TO BREAKDOWN OF ARRANGEMENT

Senator **Kasten**. I don't want to get into a fuss, but those are the kinds of responses that I think we are going to find. This whole subject, I think, warrants a much stronger response. You either have a program in effect and you are going to go forward aggressively and ask for more money, or you don't.

Can you answer, do you or don't you?

Mr. **Draper**. If you are asking about more money, I have stated what I really believe, and that is that the $3.8 billion will be adequate to do the job.

Senator **Kasten**. With or without the agreement on the 15th?

Mr. **Draper**. If the agreement doesn't go through as it is written, then I think we have to keep our options open and see exactly where we stand; if there is some counterproposal, we would see what we would take that to mean. If there is a complete trade war and we are wide open, and you people decide that we should have a lot more money to work with, we would do our best to use it effectively. All we do is take the funds that are available to us and make the best use we can out of them.

## COMMITMENTS AGAINST FISCAL YEAR 1982 LOAN LEVEL

I think it is important right at this point, so that you understand the job that we have, to point out that we overcommit initially through our preliminary commitment procedure, and it is very difficult to know what will actually come in. It is like selling airline reservations or hotel rooms, and they usually are closer, maybe 10 percent apart, but we overcommit in the sense that if everything came through we probably would be over our budget this year.

But we don't estimate that everything will come in. As it is now, it looks like we are right on target with the loan authorization you gave us last year for the current year, ending in September 1982, which is $4.4 billion.

On the other hand, in that calculation is the assumption that America has made a sale to Taiwan for the Taiwan nuclear power deal. Now that is an $850 million commitment that we made. We really reached for it. We started with $250 million. We were told by lots of people in Congress and lots of people in industry and by our friends in the State Department that this wasn't enough and we worked and worked it up to the point where we went to $750 million, then we went to $850 million. We expect that we will get that order and that will be a big element in our budget. We hope that we do get it. All I am saying is that is a big hunk.

Then there is a coal project down in Colombia called Carbocol. It is another major element. We didn't know whether we would get it or not. It looks like we did get it. That will be about $425 million.

Today we received an application for about $300 million which will be used in Indonesia by the Fluor Corp., that won an order there. If a number of those don't come in, then you could fall short. If more than you expect come in, you go over. So the problem is one of a balancing act in a way.

## TARGETING RESOURCES

I can't honestly say that I am convinced that we will be able to do everything for everybody. We are not able to please the Boeing Co. on 747's, but Boeing got $2.7 billion of our total authorizations in 1981 and the next largest was Caterpillar Tractor with $359 million. After that came General Electric with $323 million.

In those numbers there were six 747's which sell for about $65 million each—at that time they did, but I think they are more now—and we decided that because we didn't feel Airbus had a directly competitive airplane, we would not use scarce loan resources for 747 sales. Airbus can't go across the ocean, or at least can't go 3,000 or 4,000 miles, 5,000 miles I should say, and they don't have 400 seats.

I just want to answer the point that was made earlier—and I may not get another opportunity—that we have allocated away from the 747 because we don't want to put taxpayer money on 747's and send them overseas, period. We believe in building more 747's, but we believe they will go forward with or without our support. So, we have decided to target on certain areas and that happens to be one of them. You know, if we had all the money in the world, then we could certainly help Boeing cut the price on the 747, but we are not doing that.

### USE OF FISCAL YEAR 1982 LOAN AUTHORIZATION

Senator **Kasten**. You suggested it was difficult to know exactly where you were going to end up and used the hotel and airline reservations as an example and suggested there was going to be a surplus in direct loan funding this year.

Are you saying there will not be a surplus?

Mr. **Draper**. Our best estimate currently is that the $400 million for discount loans will be used up. For regular loans we have a system which grades either A or B, A being most likely to come in, B being less likely to come in. One you might say is perhaps 75 percent sure and the other 75 percent sure it won't come in.

When we grade those we end up with a balance, and taking the A column, which seems to bear out from past history, we have totaled to $4.172 billion for the 1982 fiscal year. That would mean we are just about on the button.

In other words, I think we will be using the full amount of our authority.

Senator **Kasten**. $4.1 billion compared to what?

Mr. **Draper**. $4 billion. In other words, we are slightly over. If we are, that much would eat into next year's budget.

### USE OF FISCAL YEAR 1982 GUARANTEE AUTHORITY

Senator **Kasten**. What about the guarantees? Do you have the same kind of analysis on guarantees?

Mr. **Draper**. We estimate that $360 million in financial guarantees will come in out of a total potential of $845 million. Now we have not cut back on guarantees this year. To anybody who has shown the least interest in taking down a guarantee we have offered it. So we can't be accused of cutting back in the area of financial guarantee at all.

Senator **Kasten**. There is a surplus there, but you are saying it is not because——

Mr. **Draper**. The demand is not there. We estimate the demand totally for insurance and all guarantees would end up about $8 billion. It might even be below that. We are urging anybody that can use a financial guarantee to use it.

Senator **Kasten**. I hope that you can do more of that because the impression we get is that a number of people possibly aren't coming forward asking even for guarantees because of what they have begun to view as a less than cooperative atmosphere in which to deal.

I just hope that you can do what you can to try to overcome that.

Mr. **Draper**. Yes; I think a large part of that has been brought about by some statements that have been made by the Boeing Co. and some others who are saying that we don't have enough, we are not cooperative, or for some reason. If you think they are saying we are not cooperative, then it is not us because we are reaching out. We have very, very valuable loan officers who have been with the Bank for many, many years. They know their business. They are salesmen in a way and they are financial men in another way and they are very good. They really reach out to try to make a deal, just like a business. I am amazed, because I come out of a business environment; I am absolutely astounded at the loyalty and hard work and the dedication they have to try to do their job.

## OMB ANALYSIS OF EXIMBANK COSTS/BENEFITS

Senator KASTEN. Talking about perceptions, are you familiar with the recent OMB memorandum which concludes and I quote,

> There is no question that the Export-Import Bank support directs resources toward the export sector. Nonetheless, the benefits are greatly exaggerated and costs generally ignored.

Have you seen that OMB memorandum and what is your response to it?

Mr. DRAPER. I have not seen that memorandum, I don't believe. I don't recall seeing that memorandum.

Senator KASTEN. What is your response? You were talking about the impact that was being created. This is not the Boeing Co. It is not any of the others who have been critical. This is OMB saying benefits are greatly exaggerated and costs generally ignored.

Mr. DRAPER. As you know, the U.S. Government is a very large company. It is made up of a lot of divisions and a lot of people make a lot of statements that another person would not support. There are a variety of statements made by OMB that we would not support, and there are a variety of statements made by us that OMB would probably not support. This is not atypical.

Senator KASTEN. I suggest to you that part of the problem is caused by the administration itself, not by other countries.

Mr. DRAPER. But they have not hired a public relations person to go out to really lay it out in a large way so that it is reaching lots of places. I don't think OMB statements are read throughout the country very widely. Who knows where that statement came from? We are cooperating is all I can say.

## TOOLS TO END FOREIGN EXPORT SUBSIDIES

Senator KASTEN. Mr. Garcia said our foreign competitors no longer consider the Eximbank to be a credible threat.

How do you respond to that statement and what in your opinion would be the most effective and appropriate way to demonstrate to our trade competitors our seriousness in bringing about an end to the predatory official export credit subsidies and programs that are being backed increasingly by the French, Japanese, and others?

First of all, you say we are being looked at as a credible threat, but more people think we are not. Do you look at the Eximbank being a credible threat and, second, what would be the most effective and appropriate way for us to demonstrate our seriousness in ending the predatory trade practices?

Mr. DRAPER. As I told you, I think negotiation has proved already to be a very good device to cut down the amount of subsidy. We have done it. We at Treasury and at Eximbank made very good progress in my office on the aircraft agreement and finally signed it in Paris. That cut the aircraft subsidy in half.

The next point I make is that this wouldn't be the first step. I think I heard you say that this would be the first step if we got agreement on this latest proposal. It would not be the first step. We did make a major breakthrough, I think.

It was the first major agreement that had been reached in 5 or 6 years since the original arrangement was worked out to increase the minimum for interest rates. The new minimum rates were agreed to by all the OECD countries in October and effective November 16 of last year. That, too, cut a major percentage of the subsidy out because they were charging 7¾ percent minimum and, until last July we were charging 8¾ percent.

Now at least they have gone from 7¾ percent to a 10-percent minimum for countries in the lowest category. That is a big jump. It should be bigger. That is what we are haggling about. We are trying to get it higher.

### NEED TO CONTINUE EXPORT CREDIT NEGOTIATIONS

Senator **Kasten**. Is your answer to Mr. Garcia and to me that the way we are going to make it a more credible threat is to increase negotiations?

Mr. **Draper**. No; but I don't think that you should just immediately go to war in the sense that you drop all arrangements.

We can give our money away. We can go down to 3-percent loans. If Congress tells us to we will do it. We can do it as long as you give us the money to do it. You tell me how much money you want us to spend and we will do it.

The job I have been given is twofold. One is to keep the Bank in business and take into account in setting the interest rate the cost of our borrowing. The other is to keep the Bank competitive with foreign governments on export official credit. I think when you take those two in a balanced way my approach is to do the job as best I can with the money that is available and try to be as much of a threat as possible, but don't just with one wave of the hand, which has been done all day today, throw these negotiations out the window. They have been very effective.

Senator **Kasten**. I am not throwing them out. I think maybe France and Japan would be throwing them out, but I am not.

Mr. **Draper**. Japan is in favor of them, Mr. Chairman.

### YEN LOANS FOR U.S. EXPORTS

Senator **Kasten**. On the promise you talked about by the Japanese on the yen borrowing effort, has any loan been made under these promises?

Mr. **Draper**. The first one is just being worked out with the American Textile Association.

Senator **Kasten**. But none has been made?

Mr. **Draper**. None has been agreed to. We are about to authorize a guarantee on that credit.

Senator **Kasten**. One transaction is about to be made?

Mr. **Draper**. That is correct. We just signed the agreement with them when Mr. Glick and Mr. Hess from Eximbank were in Japan 3 weeks ago. We are just getting underway.

Senator **Kasten**. My understanding on that is that the agreement was reached last fall, but I may be wrong.

Mr. **Draper**. That is not correct, although we have been discussing it since last year.

### AGREEMENT ON NUCLEAR PLANT FINANCING

Senator **KASTEN**. You spoke to me in my office about this a number of months ago and suggested an agreement had been reached for all practical purposes in setting the same kind of arrangements on nuclear facilities as you have been able to successfully set on aircraft?

Mr. **DRAPER**. Right.

Senator **KASTEN**. What happened to that agreement and why did it fall through?

Mr. **DRAPER**. It did not fall through. The only case that has come before us——

Senator **KASTEN**. Mexico didn't.

Mr. **DRAPER**. The only case that has come to us is in Mexico. That is the only one that is in an international bidding situation that is alive today, but as I mentioned that in my statement Mexico has delayed a decision on that order.

You are right, there is no hard and fast agreement, but we did make an agreement with the other countries bidding with regard to Mexico that stands I think on its own merits. We got an agreement for a 12-percent interest rate and a term, I think, of 15 years, and required the Mexican Government's guarantee on it.

In other words, it was a combined effort from all those countries. I think it proved a lot of countries don't like subsidy any more than we do.

### EXIMBANK'S MANDATE

Senator **KASTEN**. Let me talk for a second about the overall mandate.

Is there anything in the law which requires you to exclude developed countries from Eximbank loans and Eximbank guarantees?

Mr. **DRAPER**. I am sorry?

Senator **KASTEN**. Is there anything in the law or the mandate for the Bank which requires you to exclude developed countries from Eximbank loans or Eximbank guarantees?

Mr. **DRAPER**. No; and we have not excluded them, by the way, in our targeting. We don't make any loans to Saudi Arabia, for example, because we feel Saudi Arabia can pay cash.

Senator **KASTEN**. Explain to me the difference between targeting and excluding. Targeting funds away from certain kinds of developed countries?

Mr. **DRAPER**. To answer your question, there is nothing in the mandate that tells me as the Chairman of the Bank or advises the Board that they have to lend money in any particular way except those two elements, to be competitive with foreign government financing and, as I say, to be cautious about watching our cost of borrowing when we set our interest rates.

### COMPETITIVE MANDATE VERSUS SELF-SUFFICIENCY

Senator **KASTEN**. Let me talk about the other issue.

Isn't it true that mandate for the Bank to be competitive is in the charter, but the mandate that the Bank be self-sufficient is not in the charter?

In other words, it is the intention which has been articulated many times, but not written into law without a significant qualification, so if a choice were to be made I think that the Directors of the Bank would opt to follow the act and try to be competitive and to match foreign predatory financing, whatever the cost to the self-sustaining nature of the Bank would be.

How do you interpret that mandate?

Mr. **DRAPER**. I don't know. I read the two and when I was confirmed by the Senate I said that I would manage to try to balance those two, that I would recognize equal weight in both cases. I did not weigh one more than the other.

Senator **KASTEN**. You don't think Congress has indicated which of these two objectives has priority?

Mr. **DRAPER**. That is correct, I don't think so.

Senator **KASTEN** [reading]:

> It is further the policy of the U.S. that loans made by the Bank shall bear interest determined by the Board of Directors of the Bank taking into consideration average cost of money to the Bank as well as the Bank's mandate to support U.S. exports at rates and on terms and conditions which are competitive with exports of other countries.

Mr. **DRAPER**. They actually mentioned the interest rate first. I take them as a balanced twosome trying to do both and it is a judgment call. It is difficult. If you were in my shoes you probably would be handling the Bank the way I am.

Senator **KASTEN**. We don't have to argue about what I would do, but I am concerned that in my opinion the Congress puts priority on the effort to match the predatory financing.

Mr. **DRAPER**. Did you read it that way?

### PRINCIPAL MANDATE—COMPETITIVE FINANCING

Senator **KASTEN**. Yes; taking interest rates in consideration, there is a mandate. There is no mandate that the Bank has to show a profit. We have very difficult times right now because of the high prime rate of interest. I think all of us in the administration hope we will see the interest rate driven down. Hopefully the House has passed a budget and we will be going in that direction.

The mandate in my mind, and maybe we can reemphasize it with some congressional action, support language, or possibly bill language, is primarily to match the predatory financing of our trade competitors and only secondly to work for a profit or some kind of balance.

The question was raised about a couple of specific contracts which had fallen through. It was pointed out it is difficult for anybody to say that the lack of competitive financing was the critical or the only element.

Obviously, in any of these negotiations there is a gray area. I would like you to respond to what a couple of people brought up saying that in some cases we don't even get in the door.

In other words, the British or the French sit down and say, "This is the financing package we are going to offer. We would just as soon now you begin the process with these others."

Are you aware that this goes on and is there anything we are doing about these particular deals in which we never even get started?

### MIXED CREDITS

Mr. **Draper**. Right. I am aware that that happens periodically. I honestly think it generally happens as mixed credits, more in the past than in the last 6 or 8 months. Although I didn't mention it previously, the negotiations were successful in extending to the mixed credit problem and to reach an agreement where the grant element of a mixed credit would not be less than 25 percent.

In other words, if aid were tied to a loan it would have to be reported prior to making the bid. That has cut out a lot of mixed credits I believe. We have seen, to my recollection, perhaps one case in the last 6 months that involved a mixed credit. That is one part of it.

In other words, England was mentioned. They in effect bought a steel mill order in Mexico. They gave a 3-percent loan or something. We can't respond to that because we can't give aid, period. That is up to the AID.

### JOB ASSOCIATED WITH EXPORTS

Senator **Kasten**. That is another set of subjects that I hope to discuss, the whole idea of mixed credits and working together with AID in other countries. Clearly some of our competitors are better equipped to do that. I would just like to comment that you seem to be oblivious to some of the real problems of jobs and unemployment out there.

I feel strongly that we in the administration have to demonstrate our commitment and our concern for jobs in America. I hope very much that you and others, including people at OMB, can work to change this perception of the administration. As you know, the perception is half the game in Washington, D.C.

Mr. **Draper**. Sure.

Senator **Kasten**. The impression is that we are simply not concerned. We not only lose jobs, but we transfer jobs and in some cases we are transferring jobs to foreign subsidiaries of U.S. companies. That certainly is the case of a couple of people who have been before us today.

Really the U.S. company is not taking a loss, but certainly American jobs are being lost and the American budget and the American participation and the American lead in technology and American competitiveness is clearly being lost.

Whether or not we are losing contracts or not, we can look at the chart and look at Airbus sales just in that one little area. One way or the other they are selling more and we are selling less.

Ten years ago those numbers were not there. Their governments are making commitments that our Government is not. Somebody made the point we are competing company by company, but we are having trouble competing government to government.

I hope you will work to try to change this perception that we have that somehow we are going to let this thing float along.

Mr. **Draper**. I think one thing that we don't want to lose sight of, and the reason I am here in Washington and many others are, is because President Reagan got elected and he got elected on the basis that he would cut the cost of Government and cut the taxes and we are a part of that. We are a Federal agency.

Now I believe in the Eximbank. I believe in the jobs it does provide and the ability it gives foreign buyer in foreign countries to buy American products which in turn, of course, make for American jobs. That was basic in my statement.

I am not oblivious to it and neither is anybody else in the administration, including David Stockman. I think what he is trying to do, and we are all trying to do, is take a little bit of the weight on our shoulders, every agency and every department, with the exception perhaps of the Defense Department of course, but even there I think they are trying to make the dollars go further.

I think we are all trying to do a part of the job so that we are more competitive in the future. I think we have lost sight somehow, here in Washington, of what makes the country go and it is private enterprise and they have been burdened with heavy, heavy taxes and those are coming down, and heavy inflation and that has come down.

I think it is important to cooperate in all of this effort. If you get too far out and say that any one department ought to grow where everything else is shrinking, you have to look at it very closely and make very sure that every dollar that is being spent is being spent well.

Senator **Kasten**. As a member of the Budget Committee I don't disagree with anything you have said, but I think it is important to point out that how we are going to balance this budget is through jobs. A 1-percent change in unemployment is worth $25 billion in deficit.

The effort we can make to support employment in this country is critical to the overall success of our administration.

Mr. **Draper**. I agree with that.

Senator **Kasten**. I would like to thank you for your testimony and for appearing. I would like to thank all the witnesses who have participated in today's hearing.

### SUBCOMMITTEE RECESS

The subcommittee will recess until June 15.

[Whereupon, at 4:40 p.m., Thursday, June 10, the subcommittee was recessed, to reconvene Tuesday, June 15.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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TUESDAY, JUNE 15, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2 p.m. in room S-146, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

## INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

## U.S. TRADE AND DEVELOPMENT PROGRAM

### STATEMENT OF JOHN HARDY, JR., DEPUTY DIRECTOR, U.S. TRADE AND DEVELOPMENT PROGRAM, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

### INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order.

This afternoon, the subcommittee will hear from three representatives from the Agency for International Development and the International Development Cooperation Agency that will justify the administration's budget request for fiscal year 1983 for the U.S. trade and development program; the U.S. foreign disaster assistance program, and the American Schools and Hospitals Abroad program.

We will begin with Mr. John Hardy, Jr., the Deputy Director of the U.S. trade and development program.

It is my understanding that Chris is out of the country, is that right?

Mr. HARDY. Yes, he is in Asia. He would have liked very much to have been present to discuss TDP with you, but he is in Asia reviewing our projects there, determining whether there is anything further that TDP can do to facilitate U.S. participation in these projects.

Senator KASTEN. We are happy to have you.

Let me just remind you that the people behind cannot hear unless you and I speak louder than we would normally.

Mr. HARDY. Thank you.

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### TDP GROWTH AND DEVELOPMENT

I appreciate the opportunity to discuss TDP before the Subcommittee on Foreign Operations. This committee's longstanding interest and support has been instrumental in assuring TDP's growth and development.

I have a statement which I would like to submit for the record if I may, and then I would like to summarize it briefly. Then I would be happy to answer any questions you might have.

Senator **Kasten**. Your entire statement will be included as part of the record, and we appreciate your efforts at summarizing it.

Mr. **Hardy**. Thank you.

I would like to provide you with a brief overview of TDP, particularly to discuss our objectives, our strategy for achieving those objectives, and then to describe some of our success stories.

### TRADE AND DEVELOPMENT PROGRAM

The trade and development program was established in July of 1980 as a separate component of the International Development Cooperation Agency. TDP has been delegated authorities under section 607(a) and section 661 of the Foreign Assistance Act.

Under section 607(a), TDP is the authorizing and coordinating agency for the provision of U.S. Government technical services to foreign governments on a fully reimbursable basis.

Through that mechanism, TDP has been involved in efforts to utilize U.S. Government technical services in situations where foreign governments have identified a U.S. agency which it feels capable of providing quality goods or services or when such governments have been reluctant to use the U.S. private sector, or in areas in which the private sector has not been interested, to use the technical services of the Government in an effort that they provide a springboard for subsequent private sector activities.

Last year we had a consulting firm review our section 607(a) activities. It was its conclusion that section 607(a) activities, from fiscal year 1979 through fiscal year 1981, will result, at the time of project completion, in over $1 billion of U.S. exports. It projected that for the next 4 years there will be in excess of $150 million per year in U.S. exports arising from these activities.

However, the bulk of TDP's activities occurs under the authority of section 661, by which TDP provides grant financing for feasibility studies and other project planning services of major development projects in the Third World.

### TDP OBJECTIVES

Under these authorities, TDP has three complementary objectives:

First, to foster development in the Third World. Contrary to U.S. bilateral concessional assistance programs which provide project financing, TDP is involved only in the financing of planning services. Since TDP does not provide project financing, the countries which are interested in TDP's resources are countries which themselves have foreign exchange or have access to financing from the international financial institutions.

What these countries are looking for is technology and expertise in planning assistance, and those are precisely the things which TDP can provide.

A second objective of TDP is to facilitate the use of U.S. goods and services in priority development projects. TDP ties our grants to host countries to the requirement that the host countries use a U.S. firm to provide the planning services. In so doing, the U.S. firms get in on the ground floor of major projects, and their participation in the feasibility studies places them in the best position to do follow-on work in project implementation.

Additionally, TDP assistance improves the competitive position of U.S. firms when they are competing against firms of other countries which use concessional assistance and generous export financing to acquire major implementation contracts for their export industries.

Third, the other TDP activities besides feasibility studies which we finance—such as symposia—which introduce U.S. technology and U.S. firms which are producing goods in a relevant sector to countries and to the countries' decisionmakers when they are not aware of U.S. capabilities in a particular sector.

The third objective of TDP is to facilitate access to natural resources of interest to the United States. While TDP has had a specific mandate in this area, only with this administration has particular emphasis been placed in the area of natural resources. It is a new area for TDP, and we are still in the process of exploring how best TDP might fit into this area.

## MINERALS DEVELOPMENT

What we are trying to do is to take the skills that we have in putting the interested parties together, primarily the U.S. mining community and host country decisionmakers, to focus on a few natural resources of interest to the United States—such as cobalt, manganese, chromite and platinum—and see if there is any way in which a small amount of TDP seed money may be used to break particular bottlenecks or play a facilitative role to encourage U.S. firms to become involved in the development of those minerals.

We have to date had one team go to Morocco to examine the possibilities of further development of cobalt and are now discussing with the private sector and with a number of Government agencies additional activities in this area in other countries in mineral development.

TDP's budget in fiscal year 1982 is $6.907 million, of which more than 5 million is devoted to program activities. The administration's request for fiscal year 1983 is $10.5 million of which $8 million is to be allocated to the program budget.

The difficulty that we see in not receiving the requested increase is one of credibility. This is a new program. We rely very heavily on responses and continued interest of the foreign commercial service, the embassies, the AID missions overseas. There is tremendous demand for this program from the private sector and from host country governments who have become aware of and interested in TDP's activities.

Our concern is that as the program has become better known, demand has increased tremendously. A straight line from this year into fiscal year 1983 will tend to jeopardize the momentum that has been gained to date.

## BUDGETARY CONSTRAINTS

Senator **Kasten**. I will let you complete your statement, but let me just interrupt on that point.

Mr. **Hardy**. yes.

Senator **Kasten**. If that is anyone's impression that straight-lining this program would in any way affect or indicate that the Congress does not view you as a credible group, that is simply wrong and absurd.

I happen to serve on the Budget Committee as well as the Appropriations Committee, and right this minute—right exactly this minute—the Senate and the House conferees are sitting down to try to figure out what they are going to do with the budget. Programs have been cut. In many domestic programs straight-lining or freezing is a victory. The question is whether we cut further.

So, I think it is very important for those people who view or you are referring to, who would look at a straight-lining budget as a defeat or lack of credibility—understand that the circumstances under which we operate today might not be the same in 2 or 3 years if we get the kind of economic growth that we believe is going to be occurring.

But right this minute a straight line budget is a victory in many, many areas. And one additional fact is that one area that has always been a target and will continue to be a target for budget cutting, is going to be foreign aid.

I know that you are not foreign aid. I know that there are a number of parts of these programs that would not be referred to as foreign aid, but the overall 150 function is under a good bit of attack right now and I think it is important to recognize that.

We are going to try to support you and try to work with you. I believe in what you are doing and I believe that the program is one of the better ones in this overall 150 function. But it is important that people understand the particular budgetary circumstances that we are working under. It is just darned tough to keep these programs even at the present level.

I would not normally have interrupted you but I feel so strongly about that, that that statement is simply wrong for 1983.

Mr. **Hardy**. We appreciate full well your interest in the program and we are fully aware of the considerations to which you are referring. We will do our very best to make sure that those officials in the field are also aware of the situation and understand TDP's situation as a consequence of that.

## TDP STRATEGY

Let me move on to our strategy in particular areas, new areas which TDP is emphasizing under this administration. There are really three components of the strategy focused on under the Reagan administration.

One is to concentrate on projects where U.S. technology is competitive, but where U.S. firms are likely to lose a project because of generous project financing by U.S. export competitors. In that situation TDP cannot match the effort of our export competitors but we can attempt to close that gap. I think we have been relatively successful in achieving export benefits and in injecting U.S. firms into projects as a consequence of our effort.

A second element is to capitalize on TDP's unique authorities to operate its programs, particuarly in non-AID countries such as Brazil, Venezuela, and Nigeria.

A third is to focus on specific sectors in an effort to carve out the entire sector for the U.S. business community. In Thailand, we have focused on power production and transmission facilities. We initially became involved in an extra high voltage transmission line from power facilities into Bangkok, and subsequently tied into that an additional transmission line from new facilities for which we were also providing feasibility studies, involving four coal-fired power plants. So, we are attempting to carve out the entire area for U.S. firms.

In the Philippines, we have focused on airport expansion and renovation. We have been involved in financing a feasibility study for the Maltan Airport which will be a new international airport, as well as a feasibility study for the upgrading and renovation of approximately 35 airports throughout the Philippines.

We have also been involved in doing feasibility studies for two of the three—first phase—core industrial projects which the Philippines have announced to date, involving steel and petrochemical facilities.

In Brazil, we have been involved in alternate energy projects, particularly the Southern Pipeline Project, a massive, several-billion-dollar project to transport natural gas from Argentina into the four Southern States. Also involved in that project are coal gasification facilities, feasibility studies for coal gasification facilities and for some fluidized bed combustion facilities.

Lastly let me address very briefly some of our success stories. In addition to the successes that TDP has had in terms of follow-on exports, many of which are listed in the congressional presentation, there is another kind of success story that I would like to mention very briefly. These are stories in which we have not yet arrived at the export follow-on stage where we can determine to what extent U.S. firms are involved in selling U.S. technology and goods and services in the projects, but rather they are successes in being able to get a U.S. firm into project planning at all. We are placing them in a good position for obtaining follow-on contracts.

In Panama, the TDP financed a $100,000 prefeasibility study, which is now ongoing, for a coal transshipment facility across the isthmus. The Government has been so enthusiastic about the project that it has already moved ahead of the feasibility study, in spite of the fact that there are some concerns about the economics of the entire project, and has selected a U.S. firm, Brown & Root, to manage construction of the $250 million project. So, Brown & Root already is clearly in a position to be involved in project implementation and possibly the selection of subcontractors and selection of the technology and goods that will be involved in the project.

In Peru, the Government of Peru recently determined that it wanted to construct a new airport, at Cuzco, which is a main tourist attraction. The feasibility study is projected to cost $2.4 million. The Italians offered a million dollars on behalf of the Italian firm; TDP agreed to offer a grant of $340,000 to the government, as a consequence of which the U.S. firm, Airways Engineering, was selected to do the study.

In Gabon, TDP has financed a project in the maintenance and upgrading of rural roads, port dredging to increase access to manganese resources, and in the evaluation of the commercial potential of forest resources.

The importance of the U.S. project is not only that U.S. exports have occurred as a consequence of the project, but that U.S. exports have increased even though Gabon is formerly a French colony and that is extremely French oriented. For the first time, the United States has moved in with the result that many goods and services have been acquired from the United States, rather than going—as has been past practice—to French firms.

In Gabon, the Corps of Engineers received a $425,000 follow-on contract to perform additional port dredging services. As part of that contract, the Government of Gabon has agreed to purchase $226,000 worth of equipment. Morrison & Knudsen now stands an excellent chance of being awarded a $200 million contract for follow-on work regarding the ports.

With regard to the roads, the Corps of Engineers is negotiating a $63 million contract over the next 5 years to manage part of the highway network program.

In Brazil, as part of the Southern Cone project that we discussed just a moment ago, Fluor was awarded the feasibility study for that project. As a consequence of their being introduced to and working with the Brazilians they are now on a short list for a proposed open pit coal mine which in the 1990's will be one of the largest in the world, producing 27 million tons of coal per year.

We anticipate that Fluor stands a very good chance at this point of being awarded the contract for that feasibility study.

Lastly, we have also had some successes with foreign investors. As an example, in Indonesia we offered a grant to a large Indonesian firm to upgrade a cement plant. With the TDP offer, the firm awarded the contract to two U.S. firms, Allis Chalmers and Black & Veatch.

That concludes my summary. If you have any questions I will be pleased to respond.

[The prepared statement of John Hardy follows:]

# PREPARED STATEMENT OF JOHN HARDY
## DEPUTY DIRECTOR
## U.S. TRADE AND DEVELOPMENT PROGRAM

I appreciate this opportunity to appear before you today to discuss the U.S. Trade and Development Program (TDP). This subcommittee's long-standing interest and support has been instrumental in ensuring TDP's growth and development.

I want to provide you today with a thorough overview of TDP, as well as to respond to any questions you may have. In my presentation, I will discuss TDP's objectives and specific elements of TDP's strategy for achieving these objectives; I will also provide a brief summary of our program by region.

### OBJECTIVES

The Trade and Development Progam was established on July 1, 1980 as a component of the International Development Cooperation Agency with three complementary objectives: to foster development in the Third World, to promote U.S. trade by stimulating the use of U.S. technology, goods and services in major development projects and to facilitate access to natural resources of interest to the United States. Under the authorities of the Foreign Assistance Act, TDP assists developing countries in planning projects which they intend to finance. Project planning assistance is provided by U.S. firms or Government agencies.

For FY 1982, the Congress authorized and appropriated $6.907 million for activities carried out by TDP. For FY 1983, the Administration is seeking $10.5 million for TDP, of which $8 million would comprise TDP's program budget.

The countries requesting TDP services often have substantial foreign exchange or access to international public and private lending sources to finance their development. They turn to the industrialized countries for the technology they need and seek planning assistance to help them implement major projects. TDP provides them with access to U.S. technology and provides planning assistance for major projects.

By financing planning services TDP also enables the United States to compete more effectively with other industrialized countries which use concessional aid and export credits to secure major implementation contracts for their export industries.

Our competitors have discovered that there is often a direct correlation between providing planning services and subsequently winning substantial contracts for project implementation. Thus, many use their assistance programs, including grant-in-aid planning services, to generate business opportunities for their export industries. In 1979 Japan spent $56.7 million for such planning services; the Federal Republic of Germany, $60 million in 1978; France, $20.5 million in 1979 and Italy, approximately $30 million in 1982 for the financing of feasibility studies and other planning services.

TDP, although a relatively small program, plays an important role in overall U.S. trade and development strategy in seeking to meet this competition. It is the only U.S. Government program which finances planning services to promote U.S. exports (as opposed to investments) related to host-government sponsored major capital projects. No other U.S. Government program is able to offer the same unique combination of planning services, ranging from definitional missions to feasibility studies, to encourage the selection of U.S. firms for participation in overseas development projects.

TDP constitutes an inextricable part of the U.S. development assistance program and U.S. trade policy and its developmental impact on middle income countries makes it a valuable instrument of U.S. foreign economic policy. Its efforts are focused on the countries in the developing world of particular economic importance to the United States. Many of the countries in which TDP has projects are those in which the Agency for International Development (A.I.D.) has either no program or one which is now winding down. TDP's presence in these countries is important politically for the transitional role the Program can play during the period when the country is moving away from concessional assistance; TDP's presence during this transitional phase reflects an on-going U.S. interest in the welfare of these countries.

Strategy

Now, let me turn to how we accomplish our objectives. As indicated previously, we have three basic objectives:

- to help a country develop
- to stimulate U.S. trade
- to facilitate U.S. access to natural resources of interest to the U.S.

Our strategy to realize these objectives has three basic components. They are:

— to concentrate on projects where the United States is technologically competitive and where U.S. firms stand a strong chance to lose a project because of generous planning services and project financing by U.S. export competitors unless they receive TDP support;

— to capitalize on TDP's unique authorities to operate its program; in this regard, we are particularly sensitive to opportunities in non-A.I.D. countries such as Brazil and the People's Republic of China;

— to focus on specific sectors in countries so as to improve the competitive position of U.S. firms. For example, in Brazil, we have concentrated on alternate energy; in Thailand, on power production and electricity generation; and in the Philippines, we have concentrated on airport renovation and expansion.

The countries requesting TDP services have shown the most interest to date in energy generation systems, including converting their oil-fired power generation systems to coal, and developing their renewable energy resources, large infrastructure projects such as airport and harbor development and renovation, and basic industrial facilities such as cement plants, petrochemical facilities and steel mills.

The specific planning services which we, as well as our export competitors, provide include:

- pre-feasibility and feasibility studies, as a result of which the appropriate technology for a development project is specified;
- workshops and seminars which help stimulate and identify development projects in a sector of high priority to the host country;
- technical orientation missions, in which key host country decision-makers visit U.S. firms having equipment and expertise in a sector of high development priority to the host country; and
- provision of short term technical assistance to help a host country develop projects of high priority;

Before TDP will become involved in a project, the project must comply with the following basic criteria:

- TDP projects must rank high on the list of development priorities of the host country and be of special importance in that country's development plan.
- TDP planning services must have a direct relationship to the promotion of project implementation; specifically, TDP funds are only used when it appears that a U.S. firm will not be able to provide a planning service without TDP involvement.
- Projects must involve:
  - (a) an opportunity for substantial sales of U.S. goods or services through direct contracts with U.S. suppliers, and/or
  - (b) the enhancement of U.S. access to natural resources of interest to the United States.
- Countries eligible for TDP planning services must be:
  - (a) "friendly countries" for the purposes of Section 661 and

(b) developing countries which have allocated substantial resources for procurement of foreign goods and services for major development projects.

- There must be assurance that funding for project implementation will be available from host country foreign exchange earnings or external sources other than U.S. aid programs. Additionally, follow-on procurement must be open to U.S. firms or agencies.

Areas of Concentration:

As part of our strategy, TDP has been paying particular attention to the following five distinct areas during the past year:

1. Management and Evaluation

The GAO issued an assessment of TDP in January 1981 which discussed several administrative weaknesses in the Program, particularly in accounting, financial analysis and evaluation. We have undertaken numerous measures to rectify these deficiencies in order that TDP will have a sound administrative base on which to build. We have reorganized TDP to establish an efficient administrative and management structure and to accomodate skilled positions necessary to the development of the program. We have significantly improved our financial analysis and accounting. We have met with the GAO to review our progress in meeting their recommendations; they strongly approved of the progress we have made.

We have been paying a significant amount of attention to the evaluation of past TDP projects so as to determine what has and has not been effective. Even though the majority of the projects on which we are conducting feasibility studies are several years away from actual implementation, we feel that we can learn much from them in our effort to target our resources more effectively. To this end, we have developed a project evaluation methodology and have begun several evaluations. Later in this testimony, I will describe the successes we can identify at this time.

2. Access to Natural Resources. The Foreign Assistance Act directs TDP to facilitate access to natural resources of interest to the United States. We are presently studying how TDP can best achieve that mandate, particularly with regard to strategic minerals and metals of interest to the United States. Our strategy is being developed in conjunction with the Bureau of Mines, USGS, Dept. of State and other USG agencies. At least initially, we propose to finance feasibility studies of the extraction of strategic minerals and metals, with the intent that our efforts will lead to joint ventures of U.S. firms with the host country government or private sector or to the export of U.S. equipment and services associated with the actual mining.

3. Coal and Alternate Energy Resources. Developing nations desperately need to move away from oil-based energy sources to other sources of energy; we thus are concentrating on the coal and alternate energy sectors. Both the U.S. Government and the private sector have devoted huge sums of money to develop new energy technologies with the result that the U.S. is highly competitive in these areas. TDP seeks to marry the needs of the developing nations with appropriate U.S. technology. Moreover, by helping a nation convert its power generation base from oil to coal — as TDP is now doing in Jamaica — we also help open up export markets for U.S. coal.

4. TDP Activities in People's Republic of China. At the present time TDP is one of the few USG agencies which provides assistance to the PRC. TDP is the lead agency implementing the US-PRC Hydropower Protocol. I participated in the U.S.-PRC Joint Economic Committee meeting held in Beijing last fall. There are opportunities for trade with China, in the energy sector, in the development of infrastructure and particularly in the revamping and modernizing of existing industrial facilities. We believe that TDP can play a role in China's development

and in encouraging the use of U.S. goods and services in project implementation.

5. TDP participation in the agribusiness/food processing sector. Increased agricultural production continues to be a critical need in the developing world. A strengthened agricultural sector serves both as a source of food and as a source of employment in countries whose economies are rural. The United States possesses unique capabilities in the production and processing of food. We believe that TDP should capitalize on the valuable U.S. resources in this area so that through the transfer of food growing and processing technology the United States can play a major role in facilitating development of this critical sector, reducing hunger and increasing employment. In this regard we have approved a feasibility study for the development of a food canning facility in Burma.

## Regional Summary of the TDP Program

### ASIA

In FY 1980, TDP activities in Asia totaled $1,272,810, constituting 35% of the budget in that year. In 1981, TDP engaged in 22 Section 661-funded projects in eight Asian countries (Philippines, Thailand, People's Republic of China, Indonesia, Singapore, Malayasia, Burma and New Caledonia) and Asean (regional) with a total obligation of $1,910,056 or 47.8% of the TDP FY 1981 budget. As of May 1, 1982, $1,486,100 or 40% of the TDP budget has been committed to Asia.

Due to the considerable time lag between TDP project obligation and host-country project implementation, it was not until FY 1981 that follow-on business for U.S. private sector firms began to occur. US trade resulting directly from TDP participation in overseas development projects include the following examples.

- The Fluor Corporation was a major recipient of $120 million in contracts for U.S. firms resulting from an FY 1980 TDP-financed feasibility study on a natural gas pipeline in Thailand.

- o Lemco Engineering has received a $500,000 contract for design work on an extra high voltage transmission line project in Mae Moh, Thailand after undertaking a FY 80/81 TDP-financed pre-design engineering and feasibility study of $450,000 in conjunction with the Bonneville Power Administration.
- o DC Associates has been awarded a contract for $120,000 as a result of a FY 1980 Railroad Training Study in Malaysia financed by TDP at a cost of $17,270.
- o US Steel Consulting Engineers has been awarded a $5.1 million contract to undertake a feasibiilty study of the proposed expansion of an existing steel mill in Mindanao. The study was initially intended to be much narrower in scope and cost approximately $500,000, to which TDP contributed $300,000 in FY 1981.

## Latin America and the Caribbean

In FY 1980, TDP activities in Latin America totaled $1,193,013, constituting 32% of the budget. TDP engaged in 17 Section 661-funded projects in eight countries during FY 1981 (Brazil, Peru, Jamaica, Venezuela, Panama, Paraguay, Ecuador, and Netherland Antilles) with a total obligation of $1,143,693 or 29% of the TDP budget. As of May 1, 1982, TDP has committed $524,833 or 14.1% of its project obligations to Latin America and the Caribbean. Thus far, TDP activities in Latin America have achieved the following results, among others:

- o Browning Ferris of Houston was awarded a contract valued at $80 million for providing urban solid waste disposal services to the City of Maricaibo as a result of a TDP-financed study in FY 1980 by Westinghouse Health Systems which cost $33,036.
- o The Caribbean Renewable Energy Symposium, conducted last summer, to which TDP contributed $20,000 in FY 1981 resulted in the sale of $287,000 in U.S. energy conservation equipment during the

symposium. It is anticipated that through the symposium an additional $5 million in sales of such equipment will have been made in the twelve months following the symposium.

- In Panama, TDP is financing a $100,000 prefeasibility study of a coal transshipment facility. The Government is so enthusiastic about the project that it has selected a U.S. firm, Brown & Root, to manage the construction of the project, placing the U.S. in an excellent position to benefit from the $250 million project.

Near East

In FY 1980, TDP activities in the Near East totaled $1,069,166, constituting 29% of the budget in that year. In 1981, TDP engaged in 18 Section 661-funded projects in nine Near Eastern countries with a total obligation of $380,897 or 9% of the entire TDP world-wide FY 1981 budget. The TDP activities have increased in the Near East in 1982. As of May 1, 1982, $981,581 or 26.4% of the TDP committments are to five Near East countries (Cyprus, Morocco, Saudi Arabia, Sudan and Tunisia).

FY 1981 saw the beginning of follow-on business for U.S. private sector firms resulting from TDP-financed activities in the Near East region. Thus far, successes include:

- Following a FY 1981 TDP-financed oil shale symposium in Morocco, the U.S. subsidiary of Davey McKee has been awarded a $2.3 million contract to construct a pilot plant which would test a Moroccan oilshale development process.
- A contract to purchase $6 million worth of equipment is being negotiated as a result of a ground water study in Tunisia, financed by TDP in FY 1979 at a cost of $25,000.
- Several million dollars worth of U.S. drag line technology has been ordered by the Government of Tunisia as a result of a Morrison-Knudsen $1 million phosphate mining study to which TDP contributed $350,000.

## Africa

In FY 1980, TDP activities in Africa totaled $171,181, constituting 4% of the budget in that year. In FY 1981, TDP engaged in 10 Section 661-funded projects in Africa with a total obligation of $558,229.54 or 14% of the entire TDP world-wide FY 1981 budget. TDP's FY 1982 committments in Africa, as of May 1, 1982, include $421,751 or 11.4% of our budget. Thus far, follow-on activities in the Africa region include:

- o As a result of a TDP-financed technical assistance team, Gabon in FY 1980 awarded a $475,000 contract to the Corps of Engineers for a shoaling study of Gabon's Port of Owendo and, as a result of recommendations by the Corps, purchased some $200,000 worth of U.S. equipment.
- o As a result of a $2,500 TDP-financed technical assistance, the Government of Nigeria in FY 1980 awarded a $100,000 contract to the U.S. Immigration and Naturalization Service (INS) for training services to the Nigerian Immigration Service. This contract to INS has already resulted in over $200,000 to the U.S. for the training of Nigerian immigration officers and is expected to result in an additional $100,000 per year for the next three years.
- o In FY 1978 TDP funded a definitional mission by the USDA to Nigeria, which has resulted in a contract with the USDA for technical expertise in a comprehensive soil survey for which in excess of $500,000 has already been paid for U.S. goods and services.
- o A $3,000 TDP-funded trip to Lagos, Nigeria by an expert from HHS in June, 1981 has resulted in Nigerian payments in excess of $250,000 for U.S. goods and services to develop Nigerian health services.

I should also note that FY 1981 saw signs of maturity of the U.S.-Nigeria Joint Agricultural Council which was supported by a TDP grant and negotiations, on a number of joint business ventures as yet not completed, may total in excess of $700 million.

Conclusion:

We believe that TDP offers both the United States and the developing nations a unique service which:

- increases the competititve position of U.S. firms by providing them with a foothold in a foreign market;
- strengthens ties between the U.S. and such countries as Brazil which are no long eligible for concessional assistance;
- helps countries plan for projects which are of the highest priority to the countries themselves; and
- helps facilitate access to natural resources.

We appreciate your interest in our Program and hope that our performance has, and will continue to, meet your expectations.

### RELATIONSHIP WITH PRIVATE ENTERPRISE BUREAU

Senator KASTEN. Thank you.

As you are probably aware, the primary reason that the trade and development program shows up as a separate line item in the budget is because this subcommittee over the years has had a particular interest in it. It was, I am told, 3 years ago that this subcommittee under Senator Inouye broke it out into a separate line item that has been a particular concern and interest of ours over the years.

I think that everyone agrees that its potential is great. I have to also say that the reports that we get from various people, business people and others that are interested, are very, very favorable.

Mr. HARDY. We appreciate that.

Senator KASTEN. We want to work closely with you and Chris and others. Thank you for the job that you are doing.

This year I have a little bit of concern, though, about the direction that we are going under the current administration, and basically it relates to the relationship between the two different programs. We have the Bureau for Private Enterprise and we also have the trade and development program.

You could say that at the present time your boss in a way has two jobs, Director of the trade development program and also as a deputy to Mrs. DuPont. Do you believe, or do you not believe, that the directorship of the trade and development program requires a fulltime person and that person should have one job?

What I do not want, I do not in any way want to imply that the trade and development program is in some way subservient to the overall Bureau for Private Enterprise. That is, I hope, not the way it is being meant.

Mr. HARDY. No; I do not believe that is the case. The trade and development program is a separate component of the International Development Cooperation Agency. As such, we report to Peter McPherson who is both the AID Administrator and the Acting IDCA Director. So, that there is clearly one possible source of confusion. Chris reports directly to Mr. McPherson in his capacity as acting IDCA Director.

Additionally, we want to and do work closely with the Bureau for Private Enterprise in an effort to coordinate our activities with what they are doing, as well as with other export agencies and development agencies.

As a consequence I think that it has worked out very well, that Chris has been able to play the role that he has because of the linkage that exists between the Bureau and what AID's activities are in the private sector and the trade and development program's activities.

However, there is no basis for the proposition that the Bureau for Private Enterprise is exercising a policy role with respect to TDP, but rather we closely coordinate our activities so that there is no overlapping and so that we can be most efficient.

Senator KASTEN. I think you understand my concern, and we can explore that at another time in a different forum, possibly. But it seems to me that basically Mr. Holmes has two jobs, two offices, and two different titles, one of which is a deputy to—is she called Director of the Bureau of Private Enterprise?

Mr. HARDY. Assistant Administrator.

Senator KASTEN. All right, the Assistant Administrator, one of which is a deputy to Mrs. DuPont. I am all for coordination, I am all for all the words that you just used, but I think that unless the administration intends to make a basic change here, that the head of the trade and development program ought not to be appearing as a deputy. Maybe this is an interim move, maybe at one point they did want to try to fold it in; I do not know.

Mr. HARDY. I do not know, either.

Senator KASTEN. But it is a concern and I just think, walking into a room in Indonesia or wherever it is, he obviously wants to have his hat on as a director, not as a deputy to Mrs. DuPont. I would like to explore this further.

Mr. HARDY. I understand full well your concern. I might add that Chris in his capacity as Deputy is in charge of a number of organizations within the Bureau, including the Office of Business Relations in AID and the housing guaranty program in AID, as well as liaison between TDP and the Bureau which he does very well, and liaison with the Overseas Private Investment Corporation.

Senator KASTEN. I think you understand my question.

Mr. HARDY. I understand, yes.

### TDP ADMINISTRATIVE EXPENSES

Senator **Kasten**. If we read the budget properly, roughly $2.5 million of the request is for administrative expenses. To me that seems high, based on the number of dollars that you are working with, especially when a lot of those dollars are not really operational dollars but they are grant dollars.

Do you believe that is high, overall?

Mr. **Hardy**. At the time when the projection was made for $2.5 million for fiscal year 1983, we recognized that we were going to be a separate line item but we had not yet had any experience as such. As a consequence, we were unsure of precisely what the operating expenses would be. We tried to estimate as best we could for both fiscal year 1982 and 1983.

I think now that we have a clearer idea of what our situation is with regard to operating expenses. We are estimating that as of the end of this year we will spend less than the $2 million operating expenses that we had projected for fiscal year 1982. As a matter of fact, we have already shifted $200,000 from operating expenses into the program budget.

We are projecting right now that the amount that was originally allocated for fiscal year 1982 to the operating expense side, is in excess and we want to use it now for programs.

### OVERSEAS ATTACHÉ

There are essentially two other changes from fiscal year 1982 to fiscal year 1983 which we anticipate will increase the operating expense budget. At the time the projection was made for fiscal year 1983 we were anticipating that we would have an additional attaché overseas—at the present time we have one. Consequently, incorporated into the fiscal year 1983 budget are startup costs for an additional overseas attaché. We have not yet made a final decision as to whether that will go forward. Originally, there were plans for more overseas attachés but we cut back on those because of the size of the program and the fact that at this stage it may not be necessary.

Senator **Kasten**. In other words, you think you will be under the $2 million mark with or without the additional overseas attaché?

Mr. **Hardy**. For this year we are clearly going to come several hundred thousand dollars under the $2 million projected amount. For fiscal year 1983, we think it is overstated to a certain extent. We are not clear exactly how much.

### PROGRAM EVALUATION

The other area that we want to enhance is program evaluation. To date we have had only one thorough evaluation of a project. It is critical to the success of this program because we have to be able to monitor the feasibility studies that have occurred to determine what additional role TDP might play which can lead to additional exports in the projects in which we are already involved, as well as to obtain additional feedback on the types of projects we should be involved in and where our real successes are, and what they are due to.

We can only do that through an evaluation program which has only just begun, therefore, we have incorporated into the fiscal year 1983 operating expense side additional funds to enable evaluation teams to go into the field and look at a range of projects which hopefully will give us a lot of feedback in those areas.

But that is the other reason for the increased expenses.

Senator **Kasten**. I wonder if you could in a form for the record provide us with some kind of a breakdown of these administrative expenses, and also some of the options that you are working with right now.

Mr. **Hardy**. Fine.

[The information follows:]

*TDP operating expenses fiscal year 1983*

| | |
|---|---|
| Operating expenses | $2,000 |
| Personnel compensation: | |
| Full-time positions | 811 |
| Other than full time | 41 |
| Other: | |
| Personnel benefits | 80 |
| Travel | 152 |
| Transportation of things | 20 |
| Communications utilities and other rent | 392 |
| Printing and reproduction | 4 |
| Other services | 463 |
| Supplies and materials | 13 |
| Equipment | 24 |

## FINANCING OF GRANTS AND PROGRAMS

Senator **Kasten**. Basically what you are saying is, you agree with me they might be a little high, but you erred on the high side and now some of those funds are coming into other areas.

Mr. **Hardy**. That is right.

Senator **Kasten**. That would be helpful.

To what degree do you get involved in—I should not say "mixed credits" necessarily—different kinds of financing in some of your grants and programs?

In other words, were we to put together an Ex-Im loan along with some of the work that you are doing in the form of a grant and possibly even with some AID money coming from a different direction, my sense is that other countries, the Japanese in particular, are more adept at putting together packages which involve different sources of funds. Are you doing this at all and is my sense right that we might not be doing as much of this as some of our competitors, in particular the Japanese?

Mr. **Hardy**. Senator, I think you are absolutey right. The United States to date has not been involved to a very great extent in that sort of activity. TDP, of course is involved only with the feasibility study aspect and not with project financing. We have not been involved in projects in which any AID funding has been involved since any AID financing in project implementation would preclude our participation.

Senator **Kasten**. Any AID financing?

Mr. **Hardy**. AID project implementation would preclude our participation—if I could explain, the statute basis on which we work requires that any projects in which TDP is involved be financed from other than U.S. development assistance funds.

Senator **Kasten**. Ex-Im funds would not qualify in that group, but AID funds would.

Mr. **Hardy**. AID assistance funds would. So, we will not be involved in these projects.

Senator **Kasten**. Is that a worthwhile statute?

Mr. **Hardy**. I think the original idea was that TDP would have a mandate separate and apart from AID's, and that we would not compete for projects.

The mixed credit issue is a very complex one, and it has been subject to somewhat heated debate within the administration. To date we have stayed out of it and have operated just on the feasibility study level, and have not been involved in project financing.

One of the difficulties is that we get involved in a project at such an early stage that very often there is no clear-cut financing available. Now, as you mentioned, other countries have come forward with packages that have included not only feasibility studies but also project financing. This has worked to the detriment of U.S. firms in a range of projects.

Senator **Kasten**. Well, even in some of your success stories that you mentioned, obviously one of the things that you are suggesting—and you were not very indirect about it—is that once we get organized and begin with a feasibility study and involve U.S. firms, there is the possibility for U.S. contractors and subcontractors.

Mr. **Hardy**. Absolutely.

Senator **Kasten**. And if along with that possibility for U.S. contractors and subcontractors we could also have someone from the Eximbank or whatever saying, "And in addition we will match the predatory financing of the French, and we are interested in doing business with you," and tying the whole thing together is something, it seems to me, where we are losing business because we are not doing it that way.

Mr. **Hardy**. I think that is true. I think that is a policy that goes far beyond TDP's role, and it is a policy that, as I said, has been under considerable debate and discussion.

But I would think that there would be clear trade benefits, if such a policy came to be adopted.

## RELATIONSHIP WITH OTHER AGENCIES

Senator **Kasten**. Last week we had a hearing with representatives of Bill Brock's office, the Trade Representative's office, the Commerce Department and the Treasury Department, and then Bill Draper from the Eximbank. One of the things that came out was the fact that often you have different people going in different directions.

Unfortuntely, in some of these cases you might be one more person going in a different direction, meanwhile the French and the Japanese are getting the jobs.

In last year's testimony the Acting Director indicated that the administration was reviewing the relationship between the TDP and OPIC, and the Eximbank, especialy with respect to whether or not the TDP should be self-sustaining.

The testimony further indicated—last year's testimony—that TDP intended to implement policy that would provide some partial reimbursement by the private sector for some of these activities.

Are you aware of this issue; do you know what has happened to that review that they suggested last year was going to take place? And what is the current status of the reimbursement policy, if any?

Mr. HARDY. With regard to the first question, we are really not aware of any developments in the last year regarding this issue. There is increased coordination among those agencies to which you refer in terms of trying to improve information access among the agencies concerning critical projects that we are working on, ways in which, as you say, the Ex-Im might come in behind and work on project financing for a project that TDP has been involved with.

In terms of organizational changes, there are none proposed to my knowledge.

Senator KASTEN. Was there any kind of a formal review of this relationship and is there a document that you could give us, "We have studied this and here is what we came out to?"

Mr. HARDY. As far as I know there have been no studies done on the relationship to which you refer.

### REIMBURSEMENT BY PRIVATE SECTOR

Senator KASTEN. And what about the question of partial reimbursement by the private sector, has there been anything formally done there?

Mr. HARDY. We have worked on this over the past year and the areas in which we are seeking reimbursement for include any project in which a U.S. firm takes an equity position. We will seek cost sharing and will seek reimbursement if the project goes forward. That is a requirement for TDP participation.

In a sole-source situation in which basically if a feasibility study is being done it is being done for the benefit of one firm, we would seek reimbursement. In all other situations, it is difficult to require reimbursement because it has the practical impact of discriminating against that particular firm as opposed to other U.S. firms that might participate or, and even more importantly, against foreign firms.

So, as a consequence we have not required that.

Senator KASTEN. Last year in answer to the same kind of a question Mr. Raymond said that, "it intends to implement a reimbursement policy that would provide partial reimbursement by the private sector. For example, in projects in which the private sector has secured major implementation projects resulting directly from our financing, and therefore would have the capacity to pay the program back."

Now, he did not talk about equity interests in his answer.

Mr. HARDY. No.

Senator KASTEN. You are incorporating that question?

Mr. HARDY. That is a more recent development. For approximately the last year we have been involved in a few of those projects. And in that type of project we will require reimbursement in all cases.

## TDP REGIONAL APPROVALS

Senator **Kasten**. Last year you provided a regional distribution of TDP activities for the record. I would ask that you provide once more for the record another summary for fiscal 1982.

Mr. **Hardy**. We will be pleased to.

## FY 1982 Projects Approved to Date

Latin America - FY 1982 Total $918,623

Belize - Electric Power Transmission - $175,000

The Goverment of Belize (GOB) needed to improve its electricity transmission and distribution system and to provide for future purchase of power from Mexico. They desired to standardize their power generating equipment and to make it compatible with the Mexican system. This required U.S. equipment which was also cheaper with spare parts and service easy to obtain. An earlier prefeasibility study had recommended against U.S. vendors and had excluded U.S. firms from the short-list provided to the Caribbean Development Bank (CDB) who would fund the project. The CDB could not, therefore, use a U.S. firm for the design and engineering work. The GOB would provide about $35,000 for U.S. design and engineering and the TDP provided $175,000 for the balance of the feasibility study which should result in downstream trade with the United States.

Brazil - National Gas Alternative Uses - $219,000*

This TDP grant will fund a study of the alternative uses of promising deposits of natural gas to be undertaken by a U.S. firm. The grant will represent a small fraction of the total costs of the gas exploration program but will open the way for future U.S. trade in gas development in Brazil.

Brazil - Coal Utilization Study - $86,610

This grant provides for an additional study for the utilization of indigenous coal as a substitute for imported oil. The study will test three local coals and determine the one most suitable for use to convert from oil-fired electric power generation through the atmospheric fluidized bed combustion (AFBC) technology. The study will give the U.S. an edge in competition with Germany for future trade in engineering and equipment.

Brazil - River Development Visit to USA - $2,500

The Government of Brazil is sending a group of four officials to the U.S. to look at the U.S. experience and technologies available for river irrigation development. The trip will be at Brazil's expense. The TDP funds provide for the travel costs of a U.S. Department of Reclaimation officer to escort the Brazilian group as a technical advisor and to identify opportunities for U.S. trade with Brazil in its irrigation development plans.

Jamaica - Soybean Production - $47,810

The U.S. firm I.S. Joseph Company was interested in studing the feasibility of investing in a soybean production project in Jamaica and requested funding assistance from the TDP. Consequently the TDP agreed to provide up to fifty percent of the cost of the study, not be exceed $45,810 on the condition that if the project proved feasible and resulted in an investment by I.S. Joseph Company then the U.S. firm would fully reimburse the TDP funding.

Panama - Coal/Methanol Complex - $7,163

The TDP had received a preliminary proposal for a project to export U.S. coal, convert it to methanol in Panama and export it to Japan and other countries in the Pacific. This activity funded an assessment of the proposal from specialized technical and economic standpoints.

Paraguay - Synthetic Fertilizer Translation - $540

A prefeasibility study of the manufacture of synthetic fertilizer had been previously funded by the TDP for the Paraguayan Government. The study was completed and submitted in English but funding was not sufficient for translation and publication in Spanish. This project supplemented the original funding to complete the translation and publication.

Peru - Cusco Airport - $340,000

The Government of Peru intends to construct a new airport at Cusco, its world famous tourist attraction and requested proposals for design and engineering studies. The study is expected to cost about $2,740,000. French and Italian firms were competing with the U.S. firm Airways Engineering with subsidies from their governments. The TDP agreed to provide funding of 12.4% of the cost of these studies if a U.S. firm was selected.

Surinam - River Navigation Improvement - $40,000

Surinam exports bauxite, alumina, and agricultural products but expansion of these exports is constrained by navigation channels and post facilities. The government, therefore, has requested the assistance of the U.S. Army Corps of Engineers and the Corps has agreed to undertake a prefesibility study for project identification/preparation. This early phase study will among other things, estimate the potential for sales of U.S. goods and services.

Near East/Mediterranian Total $865,707

Cyprus - Conversion to Coal from OIl - $250,000

The Cyprus Government wishes to reduce its total dependence upon imported oil and desires to look at the potential of coal as a substitute. Two of eleven firms who were placed on a short-list for the study by the Cyprus Government were American. The TDP grant to the GOC was conditioned upon the award of the contract to a U.S. firm. The GOC accepted the grant and awarded the contract to Bechtel Group, Inc. of San Francisco.

Lebanon - Tripoli Oil Refinery - $15,931

This TDP grant added additional funds to a grant made in FY 1981 to assist the Government of Lebanon to complete a technical survey for expansion of a refinery at Tripoli. The survey was undertaken by Stone and Webster Engineering, Inc.

Morocco - Fisheries Technical Assistance - $30,000

To assist the Government of Morocco in strengthening its new Ministry of Ocean Fisheries the TDP arranged for a team of eight experts from the U.S. Department of Commerce, National Marine Fishereies Service to visit Morocco for two weeks and advise on various aspects of fishing development including management, marketing, processing, and statistics. This activity was a follow-on to two previous visits of DOC experts, one to define projects in Morocco and another to advise on surveillance.

Morocco - Fisheries Symposium - $70,000

As a follow-on to the Fisheries visits by USDOC experts the Moroccans requested TDP assistance for fishing symposium to bring U.S. private sector and government experts together with Moroccan counterparts. The symposium will serve to introduce U.S. technology at a time when Morocco is planning a major expansion in fisheries development. The symposium will discuss U.S. capabilities in boat building, fishing and handling equipment, port facilities, processing and freezing technologies, marketing systems, surveillance technologies, etc.

Morocco - Translation of Civil Aviation Study - $1,100

This project funded translation and printing in French of a study done earlier by the USFAA in English.

Morocco- Strategic Minerals Assessment - $25,000

The U.S. Bureau of Mines provided a team of experts for a definitional mission to Morocco to define the potential for developing stragegic minerals projects in cooperation with the United States.

Saudi Arabia - Wheat Production - $90,100

The U.S. firm Tenneco, Inc. was interested in investing in wheat production in Saudi Arabia and requested TDP assistance in financing a feasibility study. The TDP agreed to provide up to 50 percent of the cost of the study, not to exceed $90,000, on the condition that if the project proved feasible and resulted in an investment by Tenneco then this U.S. firm would fully reimburse the TDP funding.

Tunisia - Dairy Orientation Planning - $2,826

An earlier TDP activity had provided funds for six Tunisian professionals and the U.S. dairy advisor in Tunis to visit the U.S. to observe American dairy technology and management. This TDP activity supplements the travel funding to pay a U.S. non-profit organization to plan the visit and handle all travel arrangements and contacts for the party within the USA.

Tunisia - Agribusiness Definition - $27,000

This project will fund three experts to define projects in Tunisia in poultry development, fruit and juice processing, and in dairy and/or agricultural marketing.

Turkey - Fisheries Orientation Visit - $3,750

This activity funded a visit to the U.S. by the Director General of Fisheries and Aquaculture of Turkey to spend up to 20 days visiting USG agencies and research centers, training facilities and private firms in the fields of fisheries and aquaculture.

Yugoslavia - Nuclear Power Visit - $50,000

This project funded a visit to the U.S. by 15 experts from Yugoslavia to see and discuss American nuclear technology. This visit is a follow-on to a seminar held in Yugoslavia sponsored by the U.S. private sector in response to GOY plans to install several nuclear power facilities by the year 2000. Five countries have held technology seminars in Yugoslavia and each have then sponsored visits to their countries by Yugoslav experts to inspect their technologies and to discuss nuclear programs. Competitive countries have been Canada, France, Sweden, Great Britain and Japan.

Africa $379,751

Kenya - Mombasa Port Expansion - $306,751

In FY 1981 the TDP partially funded a prefeasibility study to identify potential projects for development of the Port of Mombasa in Kenya. This FY 1982 funding includes $6,751 to complete the prefeasibility work and $300,000 for a Phase I feasibility study. That Phase I feasibility study will examine port expansion from among other things, the growth of or establishment of additional light industries, and the provisions for bulk cargo facilities such as bulk coal as a replacement for oil. The study will also consider the feasibility of a free port area.

Sudan - Vegetable Oil Refinery Tender - $58,000

The Sudan Government is interested in expanding and modernizing its vegetable oil/soap industry. A feasibility study has been completed by a Belgian firm and the Arab Authority for Agricultural Investment and Development (AAAID) will finance the implementation of the project. One American firm, Davy McKee Corporation, has been included on the short-list for sub-contracting to AAAID and AAAID has specifically asked Davy McKee to prepare tenders for this project. The U.S. firm requested TDP support for preparing the bid on a reimbursable basis. If Davy McKee is awarded the contract they will fully reimburse TDP for the cost of tender document preparation.

Tanzania - Gas Pipeline Orientation - $15,000

This activity funded a visit to the U.S. of three Tanzanian officials to discuss with U.S. firms and financial institutions the implementations of a natural gas pipeline and a fertilizer plant project. The proposed project is based upon a feasibility study conducted earlier by a U.S. firm, Williams Brothers Engineering, and funded by the TDP.

Asia $1,368,988

Burma - Food Processing Plants - $160,000

Based upon an earlier definitional mission funded by the TDP ($19,200) the Burmese Government desired to follow-up with a feasibility study for a tropical food processing plant and a can manufacturing plant. In competition with a French offer the TDP agreed to fund this study if the contract was awarded to a U.S. firm. The GOB agreed and the U.S. firm Experience, Inc. was chosen to conduct the study.

Peoples Republic of China - Hydroelectric Orientation - $32,000

Under a protocol between the USG and the PRC the Governments have agreed to, among other things, provide for visits to the U.S. of Chinese officials to familiarize them with U.S. technology in hydropower and waterways development. This activity funded these visits arranged by the U.S. Department of Energy.

Peoples Republic of China - Engineers Council Visit - $15,000

This activity provided partial funding for a delegation of the American consulting Engineers Council to visit the PRC to negotiate the role of the U.S. private engineering sector in China's modernization plans.

Peoples Republic of China - Hydropower (Tian Sheng Qiao) - $440,000

This activity provides a $400,000 grant to the PRC to contract with a U.S. firm for a feasibility study for a major hydroelectric power plant at Tian Sheng Qiao. The activity also funds (40,000) the U.S. Army Corps of Engineers to help define the scope of work, solicit proposals, assist wth review of proposals, supervise the contract, and assist in the review of the final feasibility report prepared by the U.S. firm.

Indonesia - Bank Training and Information System - $36,306

The Inter American Programs Development (IAPD), a center of the American University is interested in a potential investment in Indonesia in using micro-computors and vidio to train Indonesian bank officers and to process bank information. IAPD has requested financial assistance from the TDP to help finance the investment feasibility study. The TDP has agreed to finance 75 percent of the costs up to $36,306. If the project proves feasible and results in an investment by, or in sales by IAPD then the IAPD will fully reimburse the TDP funding.

Malaysia - Railway Communications - $15,000

This provides for a U.S. Department of Transportation expert to visit Indonesia to assess the prospects for railway communications and signal systems modernization, determine project eligibility under TDP criteria, and prepare, if appropriate, the scope of work for a feasibility study.

Pakistan - Agribusiness Project Development - $6,100

The TDP funding is for two experts to visit Pakistan to identify agribusiness project opportunities and to develop project proposals.

Pakistan - Crop/Livestock Production - $156,582

Two U.S. firms have requested TDP funding to conduct a prefeasibility study of agribusiness opportunities in Pakistan. The study is expected to result in a full feasibility study to set up projects utilizing U.S. farm/ranch management techniques and U.S. type growers contracts and assistance to assure high quality output for processing. The follow-on feasibility study is expected to be funded by the Islamic Development Bank. If the TDP sponsored prefeasibility study results in any investment by either or both of the U.S. firms or business to them then the firms will reimburse the TDP funding.

Philippines - Airport Development Plan - $23,000

This activity provided additional funds for a study of airports in the Philipines and to prioritize these for future upgrading. The original funding was provided in FY 1981 and these FY 1982 funds were for travel to and from Manila in connection with completing the feasibility study.

Philippines - Coal/Lignite Symposium - $135,000

At the request of the Philippine Government the TDP provided funds through the U.S. Bureau of Mines to conduct a workshop in Manila on the subject of coal and lignite development and utilization. The workshop brought together U.S. private firms with the Philippine public and private sector to discuss problems, prospects, and technologies

Thailand - Coal-Fired Power Plant - $50,000

These funds were used to expand the scope of the feasibility study funded in FY 1981 at $150,000. The FY 1982 funds provided for preparation of construction schedules, fuel consumption rates, staffing requirements, maintenance information, unit generating costs, and other information not included in the FY 1981 scope.

Thailand - Integrated Steel Mill - $250,000

The TDP agreed to share on a 50/50 basis the cost of a feasibility study for a one and one half million tons per year integrated steel mill. The total cost is anticipated at $500,000 and the TDP agreed to pay half, not to exceed $250,000, with the Thai Ministry of Industry providing the other 50 percent.

Thailand - Methanol Plant - $50,000

TDP funded 40% of a feasibility study to determine the economic viability of constructing a methanol plant. The Thais plan to produce methanol from natural gas as an alternative to importing diesel fuel. This study includes a vehicle test program to demonstrate the practicability of methanol as a diesel fuel. The balance of the funds were made available by the Ministry of Industry and Inter-Thai.

## LATIN AMERICA AND THE CARIBBEAN

Senator KASTEN. One of the administration's top foreign assistance priorities is Latin America and the Caribbean. Your request shows a decline in percentage terms to that area since fiscal year 1980—that is as a percentage of dollars—fewer dollars are going into that area. Why is this? It is an apparent inconsistency to me if the administration is going to be more and more interested in that area.

It also appears to me that some of the countries that fall into this middle category are able to be weaned off the real poorest of the poor type aid. It seems to me that the countries in Latin America and the Caribbean fit into that category; yet, your percentage is down. Do you know why that is?

Mr. HARDY. Well, I think it should be noted first of all that we try not to allocate funds arbitrarily among various regions. What we do, because of the great demand for the program, is consider projects on a case-by-case basis. Essentially, we accept them or reject them on a first-come, first-served basis.

Then, as the year develops, we will take a look at the breakout of the regional impact and the sector impact, and we may make modifications at that time. But we do not go into the year saying we are going to spend 20 percent in this region and 25 percent in that region.

We have focused in Latin America and the Caribbean on alternate energy, and particularly in the Caribbean, on the agribusiness projects. We have in response to the Caribbean Basin Initiative also shifted one of the regional directors from another region to deal with the Caribbean Basin on an exclusive basis.

At the time that initiative was being developed this year, a few months ago, we were already substantially along in terms of commitment of our funds. We have as a consequence this year not invested as heavily in the Caribbean Basin as we have wanted to. But now that we have someone who will be focusing full-time attention on it, we are developing a policy in the area, trying to focus in on particular projects. It essentially will be a continuation of our earlier strategy but with greater emphasis, in the alternate energy, particularly the coal sector and in agribusiness, in an effort to become more aggressive in those areas and to go after more projects.

### MIDDLE-INCOME COUNTRIES

Senator **Kasten**. One of the strong points of your program has been, as you work and operate in countries which are no longer eligible for concessional assistance—and I referred to that when I was talking about countries in this hemisphere, these so-called middle-income countries—that we obviously need to have a continuing relationship with.

Are you continuing to emphasize this middle-income country strategy? You talked about the Philippines in your prepared testimony.

Mr. **Hardy**. Absolutely. In Nigeria, Venezuela, Brazil in particular, in a range of those countries, they are of increasing economic importance to us. Gabon is another one. They have the resources. What they need is the type of technical assistance that we can provide and, really to have a U.S. agency encourage U.S. firms to focus on those countries.

We can provide that type of focused attention, and we continue to do so. In all of those countries we are emphasizing our activities in an attempt to expand the number of sectors in which we are involved, and in the sectors in which we are involved, to be more aggressive in trying to carve out entire sectors for U.S. firms.

Senator **Kasten**. We thank you for your testimony. There might be some additional questions from other members of the committee and there are a couple of things that you agreed to provide for the record. We will get those questions to you within about a week and if you can get back to us in a reasonable time.

I appreciate your testimony and once again, we have enjoyed working with you, with your boss and with others over in your group and look forward to another successful year. We want to be as helpful as we can and hopefully we can be successful.

Mr. **Hardy**. Thank you very much.

Senator **Kasten**. I thank you very much for your testimony today.

Mr. **Hardy**. We are very grateful for your support, and we will be pleased to answer any additional questions you have.

Senator **Kasten**. Next is Mr. Martin Howell.

Mr. Martin Howell is the Director of the Office of U.S. Foreign Disaster Assistance. We are happy to have you with us today, Mr. Howell.

## Office of U.S. Foreign Disaster Assistance

## STATEMENT OF MARTIN D. HOWELL, DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

## ACCOMPANIED BY PAUL F. KRUMPE, PROGRAM OFFICER

### DISASTER ASSISTANCE PROGRAM

Mr. **Howell.** Thank you, Mr. Chairman. I have Mr. Paul Krumpe with me, our budget officer.

Mr. Chairman, I have provided a written statement. I would like permission to have that entered into the record and make a short oral statement here.

Senator **Kasten.** Your entire statement will appear in the record.

Mr. **Howell.** Mr. Chairman, members of the staff, we, in the Office of the U.S. Foreign Disaster Assistance, appreciate greatly the staunch support which you have given us throughout the years.

Our principal goal is to continue to work toward justifying that support by doing all within our power to save lives and mitigate suffering of disaster victims throughout the world.

In fiscal years 1980, 1981, and 1982, OFDA has responded to 81 disasters in 69 countries, which affected over 17 million people. Thus far in fiscal year 1982, we have responded to 26 disasters in 25 countries, which have affected some 7 million people.

Mr. Chairman, we believe early warning, prediction, and preparedness make good sense and can save both lives and dollars. We try to enable countries to be able to help themselves and to deal with disasters and in this endeavor, I think, we have achieved rather remarkable success.

From 1954 through 1976, the U.S. Government averaged yearly relief expenditures of $55 million to six countries—Bangladesh, Brazil, India, the Philippines, Peru, and Turkey.

From 1977 through 1979, we averaged $5.9 million per year, a reduction of almost $50 million a year. From 1980 to the present, we have spent only $59,500 total to all of these six countries in relief operation.

Now, we, in OFDA cannot take all the credit for that. The principal actors have been Mother Nature and good fortune. We do believe, however, that we have been a catalyst which has enabled these countries to create very capable disaster and management systems.

With this in mind, in fiscal year 1983, we are requesting $7 million for prediction, early warning, and preparedness activities, and $18 million for relief activities. Hopefully, we will not use the entire $18 million for relief activities, but over the years, this sum has been the norm. This totals $25 million or $2 million less than our fiscal year 1982 request.

Having said that, Mr. Chairman, I will be happy to answer any questions which you or the staff might have.

[The prepared statement of Martin D. Howell follows:]

## Prepared Statement of Martin D. Howell

### Director

### Office of U.S. Foreign Disaster Assistance

Mr. Chairman, Members of the Subcommittee: It is my pleasure to appear before you this afternoon to discuss the U.S. international disaster assistance program and to present the Administration's request for FY 1983 appropriations to continue carrying out that program.

The Office of U.S. Foreign Disaster Assistance (OFDA) plans and implements overseas disaster preparedness, relief, and rehabilitation programs. It formulates U.S. foreign disaster assistance policy, under the direction of the President's Special Coordinator for International Disaster Assistance (the AID Administrator), and coordinates disaster assistance activities of AID, the Department of State, and other elements of the U.S. Government (USG). OFDA maintains contingency planning and preparedness for foreign disasters, mobilizes USG resources when appropriate and coordinates USG responses with those of voluntary agencies, international organizations and other donors. It promotes and supports preparedness programs in disaster-prone countries in conjunction with U.S. Missions abroad. OFDA maintains disaster relief stockpiles in strategic locations overseas and has a disaster coordination center in Washington, D.C.

The Administration is requesting $25 million for FY 1983 to cover the costs of helping nations to respond to, and to prepare for, all types of disasters.

The international disaster assistance program, coordinated by OFDA, has four principal elements: prediction of, preparedness for, relief of, and rehabilitation after disasters. The prediction/early warning program transfers prediction and warning technology and provides training for in-country organizations in state-of-the-art forecasting; preparedness incorporates institutional development, technical assistance and training

IN SUPPORT OF OUR GOAL TO MAKE DISASTER-PRONE NATIONS INDEPENDENT OF OUTSIDE RESOURCES; RELIEF INCLUDES INITIAL DISASTER RESPONSES, STOCKPILE MANAGEMENT AND MEDICAL SERVICES; REHABILITATION ASSISTS IN THE RESTORATION OF BASIC NEEDS FOR DISASTER VICTIMS.

BUDGETED AMOUNTS FOR THESE FUNCTIONAL AREAS FROM FY 1980 TO FY 1983 ARE AS FOLLOWS:

| | FY 1980 | FY 1981 | FY 1982 | FY 1983 |
|---|---|---|---|---|
| | (IN MILLIONS OF DOLLARS) | | | |
| DISASTER PREDICTION AND PREPAREDNESS | | | | |
| EARLY WARNING | 1.470 | 1.750 | 2.300 | 3.200 |
| RELIEF PLANNING | .360 | .750 | 1.345 | 1.345 |
| COUNTRY PREPAREDNESS | .320 | .950 | 1.355 | 2.455 |
| EMERGENCY RELIEF AND REHABILITATION | 19.650 | 19.550 | 12.000 | 18.000 |
| TOTALS | 21.800 | 23.000 | 17.000* | 25.000 |

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*OF THE $27 MILLION APPROPRIATED FOR FY 1982, $10 MILLION WAS EARMARKED FOR RELIEF AND RECONSTRUCTION IN ITALY IN RESPONSE TO THE NOVEMBER 1980 EARTHQUAKE IN THAT COUNTRY.

## PREDICTION AND EARLY WARNING

IN THE PAST FEW YEARS OFDA HAS ACTIVELY APPLIED PROVEN TECHNOLOGIES TO DEVELOP AND ESTABLISH REGIONAL DISASTER EARLY WARNING SYSTEMS FOR

(1) EFFECTIVELY REDUCING THE UNCERTAINTY OF DISASTER OCCURRENCE AND

(2) IMPROVING THE DISASTER PREDICTION/EARLY WARNING TECHNOLOGY TRANSFER PROCESS.

RECENT APPLICATIONS OF INNOVATIVE TECHNOLOGIES UNDER THIS PROGRAM ARE:

(1) TROPICAL CYCLONE WIND AND STORM SURGE THREAT ESTIMATION SYSTEM FOR GEOGRAPHIC POINTS SURROUNDING THE BAY OF BENGAL;

(2) WEATHER SATELLITE-BASED CYCLONE DETECTION AND EARLY WARNING MONITORING SYSTEM FOR BANGLADESH;

(3) DROUGHT EARLY WARNING AND CROP CONDITION ASSESSMENT THROUGHOUT AFRICA, SOUTHEAST ASIA, THE INDIAN SUBCONTINENT, CENTRAL AND SOUTH AMERICA, AND THE CARIBBEAN BASIN; AND

(4) SEISMIC INSTRUMENTATION NETWORK FOR THE FIJI ISLANDS TO MONITOR EARTHQUAKE ACTIVITY AND ASSESS SEVERITY OF SEISMIC THREAT TO SUVA, FIJI.

THESE ILLUSTRATIVE SYSTEMS, DESIGNED TO MONITOR DISASTER-CAUSING NATURAL PHENOMENA, CAN EFFECTIVELY LESSEN THE DISASTER IMPACT OF POTENTIALLY AFFECTED, VULNERABLE POPULATIONS. HOST GOVERNMENT DECISION MAKERS CAN USE THE INFORMATION GENERATED FROM SCIENTIFIC DATA ANALYSIS PROVIDED BY THESE SYSTEMS TO REDUCE THE TOLL OF HUMAN SUFFERING CAUSED BY DISASTERS.

FOR EXAMPLE, THE STORM SURGE ESTIMATION SYSTEM FOR THE BAY OF BENGAL REGION ENABLES USERS TO QUANTIFY THE PROBABILITY OF A CYCLONE STRIKING A SPECIFIC PORTION OF THE COASTLINE WITHIN A SPECIFIC TIMEFRAME, THUS INCREASING THE LEAD-TIME FOR EVACUATION.

THE CYCLONE TRACKING SYSTEM INSTALLED IN BANGLADESH (OCTOBER 1981) HAS IMPROVED THE GOVERNMENT'S PREDICTION AND MONITORING PROGRAM, WHICH HAS STRENGTHENED DISASTER PREPAREDNESS PLANNING AND RESPONSE PROGRAMS AND ALSO INCREASED THE VULNERABLE POPULATION'S CONFIDENCE IN THAT SYSTEM. ONE MAJOR CYCLONE HAS HIT BANGLADESH SINCE THE SYSTEM WAS INSTALLED. EARLY WARNING OF THE POPULATION ENDANGERED RESULTED IN SUCCESSFUL DISASTER MITIGATION

RESPONSE ALONG THE WEST COAST OF BANGLADESH AND HELPED KEEP CASUALTY FIGURES AT A MINIMUM -- A REPORTED LOSS OF 12 LIVES. IN ADDITION, LOCAL METEOROLOGISTS ARE CAPABLE OF DAILY MONITORING THE POTENTIAL THREAT AND PROVIDING RADIO BROADCAST EARLY WARNINGS OF DANGER.

THE DROUGHT MONITORING PROGRAM CONDUCTED BY THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION'S CENTER FOR ENVIRONMENTAL ASSESSMENT SERVICES (NOAA/CEAS) HAS A PROVEN TRACK RECORD IN ASSESSING POTENTIAL FOOD SHORTAGES CAUSED BY INCIPIENT DROUGHT. THE SYSTEM HAS PROVEN EFFECTIVE IN MONITORING CROP STRESS IN BANGLADESH, BOTSWANA, HAITI, INDIA, JAMAICA, MAURITANIA, SENEGAL, SRI LANKA, TANZANIA, ZAMBIA AND MANY OTHER AFFECTED REGIONS THROUGHOUT THE WORLD.

THE FIJI SEISMIC NETWORK IS CURRENTLY FULLY OPERATIONAL AND ROUTINELY MONITORS EARTHQUAKES IN THE SEISMICALLY ACTIVE FAULT ZONE NEAR SUVA. SEISMOLOGISTS (WHICH INCLUDE TWO PEACE CORPS VOLUNTEER ADVISORS) ARE STUDYING SEISMIC PATTERNS WITH A VIEW TOWARD DEVELOPING IMPROVED BUILDING STANDARDS AND INCREASED UNDERSTANDING OF EARTHQUAKE RISK.

IN FY 1983, OFDA HAS PROGRAMMED $3.2 MILLION TO CONTINUE EMPHASIS ON THE TECHNOLOGY TRANSFER PROCESS AND TRAINING AND OPERATIONAL IMPLEMENTATION OF REGIONAL EARLY WARNING SYSTEMS. IN THE ANDEAN COUNTRIES, OFDA WILL HELP STRENGTHEN THE REGIONAL CENTER FOR SOUTH AMERICAN SEISMOLOGY (CERESIS) THROUGH SEISMIC NETWORK DEVELOPMENT AND TECHNOLOGY TRANSFER AND TRAINING IN EARTHQUAKE RISK ANALYSIS. THE ANDEAN COUNTRIES HAVE CONTRIBUTED SUBSTANTIAL NATIONAL RESOURCES TO THIS COOPERATIVE PROGRAM, TOTALLING APPROXIMATELY TWICE THE USG FUNDING LEVEL.

IN SOUTHEAST ASIA, OFDA WILL CONTINUE FUNDING U.S. GEOLOGICAL SURVEY ACTIVITIES TO IMPROVE THE EARTHQUAKE HAZARDS MITIGATION PROGRAMS OF COUNTRIES IN THE REGION. IN ADDITION, WE ARE CONDUCTING TECHNOLOGY TRANSFER AND TRAINING IN THE ASEAN REGION AND SOUTH AMERICA IN THE FIELD OF

AGROCLIMATE AND DROUGHT IMPACT ANALYSIS IN CONJUNCTION WITH THE FOOD AND AGRICULTURAL ORGANIZATION (FAO), AND THE WORLD METEOROLOGICAL ORGANIZATION (WMO).

IN THE SOUTH PACIFIC REGION AND NORTH INDIAN OCEAN AREA, WE WILL IMPLEMENT OPERATIONAL THREAT FORECASTING AND ANALYSIS SYSTEMS THAT WILL ENABLE GOVERNMENT DECISION MAKERS TO TAKE COST EFFECTIVE MITIGATIVE ACTIONS IN TIMES OF POTENTIAL SEVERE STORM SURGE OR WIND THREAT DUE TO CYCLONES.

AS OF THE SECOND WEEK IN JUNE, OFDA HAS OBLIGATED $2.172 MILLION OF THE $2.3 MILLION PROGRAMMED FOR FY 1982 PREDICTION AND EARLY WARNING ACTIVITIES. THE REMAINING $.128 MILLION HAS BEEN RESERVED FOR PLANNED OBLIGATIONS TO BE MADE BY MID-JULY.

## PREPAREDNESS

OFDA'S PREPAREDNESS OBJECTIVE IS TO ASSIST DISASTER-PRONE COUNTRIES, PARTICULARLY THE LESS-DEVELOPED COUNTRIES, ACHIEVE A LEVEL OF DISASTER PREPAREDNESS SUFFICIENT TO MANAGE THEIR OWN DISASTER PROGRAMS AND TO MINIMIZE AVOIDABLE DEATH AND SUFFERING CAUSED BY DISASTERS. THE TRADITIONAL ROLE OF THE OFFICE HAS BEEN TO PROVIDE EMERGENCY AND REHABILITATIVE AID TO VICTIMS ONCE THEY HAVE BEEN STRICKEN OR THREATENED BY A SPECIFIC DISASTER. EXPERIENCE HAS PROVED THAT IT IS FAR MORE COST EFFECTIVE TO IMPLEMENT MEASURES TO PROTECT PEOPLE'S LIVES AND PROPERTY THAN TO RESPOND TO SEVERE DISASTERS WITH RELIEF, REHABILITATION AND RECONSTRUCTION PROGRAMS.

OFDA HAS CONDUCTED INTERNATIONAL DISASTER PREPAREDNESS SEMINARS SINCE 1969. SINCE 1979, WE HAVE SPONSORED REGIONAL TRAINING SEMINARS FOR THE SENIOR DISASTER MANAGERS FROM SOUTH AND SOUTHEAST ASIA AND THE CARIBBEAN OCEAN AREA. THESE OFFICIALS ARE RESPONSIBLE FOR PROTECTING THE LIVES OF OVER ONE BILLION PEOPLE FROM DISASTERS. THESE SEMINARS HAVE SPURRED PARTICIPANTS TO CONDUCT THEIR OWN DISASTER PREPAREDNESS SEMINARS NATIONALLY AND REGIONALLY. WE HAVE PROVIDED TECHNICAL EXPERTISE AND FINANCIAL SUPPORT

FOR SEVERAL NATIONAL AND INTERNATIONAL MEETINGS WHICH HAVE BEEN DEMONSTRABLY EFFECTIVE IN RAISING AWARENESS OF DISASTER PROBLEMS AND, MORE IMPORTANTLY, IN IDENTIFYING SOLUTIONS. INCREASINGLY, WE ARE UTILIZING U.S. DOMESTIC CONFERENCE ATIVITIES FOR THE TRAINING OF OUR FOREIGN COUNTERPARTS. THIS NOT ONLY REDUCES COSTS SIGNIFICANTLY BUT ALSO PROVIDES INTERNATIONAL CROSS-FERTILIZATION OF IDEAS WHICH BENEFITS OUR OWN DISASTER COMMUNITY AS WELL AS OUR VISITORS.

IN APRIL WE BEGAN A SERIES OF TRAINING CONFERENCES WHICH HAVE IDENTIFIED AND BROUGHT TOGETHER THE MUTUAL INTERESTS AND COMPLEMENTARY RESOURCES OF A.I.D., THE PEACE CORPS, U.S. EMBASSIES AND HOST COUNTRY OFFICIALS IN COMMUNITY-BASED DISASTER PREPAREDNESS. WE HAVE MET WITH COUNTRY TEAMS FROM THE NEAR EAST, ASIA AND THE PACIFIC. IN MAY WE MET WITH THE COUNTRIES OF THE CARIBBEAN IN BARBADOS, AND THIS WEEK WE ARE MEETING WITH THOSE OF CENTRAL AND SOUTH AMERICA. THE IMMEDIATE IMPACT OF THIS PROGRAM HAS BEEN IMPRESSIVE. PROGRAM PLANS INCORPORATING PEACE CORPS EXPERTISE HAVE ALREADY BEEN INITIATED BY SEVERAL COUNTRIES AND THE HIGH LEVEL GOVERNMENTAL INTEREST IN THE PROGRAM'S POTENTIAL HAS FAR EXCEEDED OUR EXPECTATIONS.

WE AND OUR CARIBBEAN NEIGHBORS HAVE BEEN PREPARING FOR THE 1982 HURRICANE SEASON SINCE LAST SUMMER; OFFICIALLY DESIGNATED HURRICANE PREPAREDNESS WEEKS HAVE BEGUN THROUGHOUT MANY COUNTRIES OF THE CARIBBEAN.

OFDA AGAIN COLLABORATED WITH THE STATE OF FLORIDA TO SPONSOR THE 1982 NATIONAL HURRICANE CONFERENCE IN ORLANDO, FLORIDA. THIS YEAR TWO CARIBBEAN DISASTER PREPAREDNESS/RELIEF OFFICIALS WERE PRINCIPAL SPEAKERS AND TWO WORKSHOPS ON CARIBBEAN HURRICANE PROBLEMS WERE ON THE AGENDA. OFDA SPONSORED THE CARIBBEAN SPEAKERS AND PANELISTS AND COOPERATED WITH THE PAN CARIBBEAN DISASTER PREPAREDNESS TEAM (ANTIGUA) TO SELECT AND FINANCE TWENTY-TWO CARIBBEAN GOVERNMENT PARTICIPANTS.

In April the coordinator for disaster planning from the Dominican Republic, a speaker during the National Hurricane Conference, visited OFDA and the Virginia Office of Emergency Services. The Dominican Republic is writing a national disaster plan and will be requesting technical assistance from the United States. This visit was to inform Dominican officials of the capability of OFDA and various states to assist in this process. OFDA anticipates using technicians from the state disaster offices to assist in the Dominican Republic. The State of Florida has offered to host Caribbean observers for a regional disaster simulation and short training course. Jamaica will invite Florida officials to observe and evaluate Jamaican disaster simulations. Disaster planning officials from the State of Virginia are advising the Government of Jamaica on their disaster plan. Progress is being made and ties of friendship forged.

Another important area of disaster preparedness is OFDA support for the Caribbean Disaster Preparedness Team. This team developed out of the need to assist the Caribbean governments which have for several years requested help in the area of preparedness and prevention planning, disaster simulation exercises, emergency operations center management communication analysis and equipment, hurricane shelter surveys, hurricane warning systems, design of disaster-related building codes, and emergency health care and first aid training.

In addition to OFDA support, other international organizations active in the Caribbean area, such as the United Nations Disaster Relief Office (UNDRO), the Pan American Health Organization (PAHO), the League of Red Cross Societies (LORCS), the European Economic Community (EEC), the East Caribbean Common Market (ECCM), and the Caribbean Community (CARICOM), have also provided economic support to the Team.

The Team which is headquartered in Antigua has full-time specialists in disaster preparedness, emergency health care, first aid training and Red

CROSS DISASTER PREPAREDNESS. A PHYSICAL PLANNER WITH EXTENSIVE DISASTER-RELATED EXPERIENCE IN THE CARIBBEAN WILL BE RECRUITED. SPECIALISTS, SUCH AS ENGINEERS, HYDROLOGISTS, METEOROLOGISTS, SEISMOLOGISTS, EMERGENCY OPERATIONS CENTER MANAGERS, COMMUNICATIONS AND PUBLIC AWARENESS/EDUCATION, WILL BE CONTRACTED FOR SHORT PERIODS TO WORK WITH AND TRAIN LOCAL GOVERNMENT OFFICIALS.

IT IS ANTICIPATED THAT FOLLOWING A DISASTER, MEMBERS OF THE TEAM WILL RESPOND TO REQUESTS FROM LOCAL GOVERNMENTS TO PERFORM POST DISASTER NEEDS ASSESSMENT AND TO ASSIST IN THE COORDINATION OF INTERNATIONAL DISASTER RESPONSE. THE CURRENT TEAM DIRECTOR, MR. PAUL BELL, HAS HAD A LONG EXPERIENCE IN THE CARIBBEAN AREA AND HAS WORKED WITH AID AND THE PEACE CORPS.

I WOULD LIKE TO SAY AN ADDITIONAL WORD ABOUT THE VALUE OF PREPAREDNESS. THE OFFICE'S PRIMARY OBJECTIVE IN THIS AREA IS TO SAVE LIVES AND REDUCE HUMAN SUFFERING. AT THE SAME TIME WE ARE VERY MUCH AWARE OF THE POTENTIAL SAVINGS OF RELIEF COSTS TO THE U.S. TAXPAYER. FROM 1954 THROUGH 1976 (A YEAR WHICH WAS FOR SEVERAL REASONS A BENCHMARK IN THE ACCEPTANCE OF DISASTER PREPAREDNESS IDEAS BY MANY DISASTER-PRONE COUNTRIES) THE USG AVERAGED RELIEF EXPENDITURES OF $55 MILLION PER YEAR TO SIX COUNTRIES WHICH WERE OBVIOUSLY DEPENDENT ON OUTSIDE RESOURCES. FROM 1977 THROUGH 1979, WE AVERAGED $5.9 MILLION YEARLY IN RELIEF ASSISTANCE FROM INTERNATIONAL DISASTER ASSISTANCE FUNDS. FROM 1980 THROUGH THE PRESENT, OUR TOTAL RELIEF TO THESE COUNTRIES (BANGLADESH, BRAZIL, INDIA, THE PHILIPPINES, PERU, AND TURKEY) HAS BEEN ONLY $59,500. THERE ARE OBVIOUSLY SEVERAL POLITICAL AND ECONOMIC TRENDS WHICH HAVE AFFECTED THIS STRIKING CHANGE, BUT WE CAN'T DISCOUNT THE FACT THAT EACH OF THESE COUNTRIES HAS DEVELOPED THE WILL AND THE CAPABILITY TO ADDRESS THEIR OWN PROBLEMS. WE ARE PROUD TO HAVE WORKED WITH THEM IN THIS ENDEAVOR.

THERE ARE MANY DISASTER-PRONE COUNTRIES WHICH ARE JUST NOW BEGINNING TO

RECOGNIZE THE IMPORTANCE OF DISASTER PREPAREDNESS TO THEIR PEOPLE'S DEVELOPMENT. WE HAVE PROGRAMMED $3.8 MILLION IN FY 1983 TO INVOLVE THE DISASTER-PRONE COUNTRIES IN SEMINARS, WORKSHOPS AND PREPAREDNESS ACTIVITIES. OF THE $2.7 MILLION PROGRAMMED FOR PREPAREDNESS ACTIVITIES IN FY 1982, AS OF JUNE L, $1.058 MILLION HAS BEEN OBLIGATED, WITH THE REMAINING PROGRAMMED $1.642 MILLION HELD IN RESERVE THROUGH AUGUST.

## EMERGENCY RELIEF

OF THE $27 MILLION APPROPRIATED FOR DISASTER ASSISTANCE IN FY 1982, $10 MILLION WAS EARMARKED FOR RECONSTRUCTION OF DAMAGE DONE IN ITALY BY THE EARTHQUAKE OF NOVEMBER 23, 1980. THESE FUNDS ARE BEING ADMINISTERED BY THE NEAR EAST BUREAU OF AID. OF THE REMAINING $17 MILLION, OFDA HAS PROGRAMMED $5 MILLION FOR PREPAREDNESS AND PREDICTION, AND $12 MILLION FOR EMERGENCY RELIEF AND REHABILITATION. AS OF JUNE 10, 1982, OFDA HAS OBLIGATED SOME $8.3 MILLION FOR EMERGENCY RELIEF IN 23 COUNTRIES FOR 26 DISASTERS. A PORTION OF THIS ($792,593) REPRESENTS OBLIGATIONS FOR DISASTERS WHICH OCCURRED IN FY 1981 (IN THE FORM OF STOCKPILE SUPPLIES REPLACEMENT).

IN FY 1980, 1981 AND TO DATE, OFDA HAS RESPONDED TO 81 DISASTERS IN 69 COUNTRIES AFFECTING OVER 17 MILLION PEOPLE. FORTUNATELY, 1981 WAS, AND TO THE PRESENT IN FY 1982, HAS BEEN UNUSUALLY FREE OF DEVASTATING DISASTERS OF THE MAGNITUDE OF THE EARTHQUAKES IN ITALY IN 1980. WE KNOW THIS GOOD FORTUNE WILL NOT LAST FOREVER.

OFDA MAINTAINS A 24-HOUR-A-DAY, 7-DAY-A-WEEK, VIGIL WITH A TRAINED CADRE OF PROFESSIONALS PREPARED TO RUSH TECHNICAL ASSISTANCE, DISASTER EXPERTS AND LIFE-SUPPORTING GOODS AND SERVICES TO VICTIMS OF DISASTERS ANYWHERE IN THE WORLD. IT IS THE OPERATIONS CENTER OF A SYSTEM THAT MONITORS DISASTERS AROUND THE ENTIRE WORLD AND RESPONDS TO THE NEEDS OF THE VICTIMS.

THE U.S. GEOLOGICAL SURVEY ADVISES OFDA OF ANY EARTHQUAKE, VOLCANO OR TSUNAMI WHICH WOULD AFFECT VULNERABLE FOREIGN POPULATIONS. NOAA KEEPS THE OFFICE ADVISED DAILY ON ALL SEVERE STORM THREATS AND INCIPIENT DROUGHT situations. The United Nations Disaster Relief Coordinator in Geneva telexes the office as soon as he learns of a disaster anywhere in the world. OFDA also monitors State Department cable traffic and the major international wire services for news of smaller disasters, and for information on incidences such as oil spills, accidents at sea, and civil disturbances. As the USG's foreign disaster coordination center, OFDA receives notices of disasters from many other sources, e.g., U.S. private voluntary organizations working in foreign countries and from other USG agencies such as the Departments of Defense and Agriculture and the Smithsonian Institution's Scientific Event Alert Network.

The U.S. Ambassador and the Mission Disaster Relief Officer in disaster-prone countries are well informed on guidelines for initiating and managing disaster assistance. It is on the basis of the Ambassador's determination that a disaster situation exists that we initiate action. The OFDA system provides that overseas missions have immediate access procedures to task OFDA. In our continuing effort to strengthen OFDA's relationships with U.S. diplomatic posts abroad which may become concerned with disaster relief operations and to ensure that the officials are knowledgeable about the operation of the program, I try to brief personally the AID Mission Directors and Ambassadors prior to their departure for post. This office assists Mission Disaster Relief Officers worldwide in the maintenance of current emergency plans, and provides assistance and guidance on the formulation of these plans. The office is currently in the process of revising and expanding AID's Handbook on Foreign Disaster Assistance to include checklists for upgrading emergency disaster response plans. OFDA officers are frequently travelling abroad on disaster preparedness and emergency relief matters and when possible, meet with Embassy and Mission Disaster Relief Officers as well as the locally based American Voluntary Agencies and host country officials who are concerned with disaster management.

## REHABILITATION

EMERGENCY RESPONSE TO MEET THE IMMEDIATE NEEDS OF VICTIMS OF DISASTER AS SOON AS IT HAS STRUCK - PUTTING OUT THE FIRES, FREEING PERSONS FROM THE RUBBLE, ASSISTING IN THE ERECTION OF TEMPORARY SHELTER, FURNISHING FOOD AND WATER AND MEDICAL SERVICES -- AND REHABILITATION -- TO RESTORE BASIC NEEDS WHICH ONE HAS LOST, CANNOT EASILY BE SEPARATED. THE EMERGENCY RELIEF CANNOT STOP ONE DAY AFTER THE DISASTER HAS SUBSIDED. THE VICTIMS MUST BE HELPED TO RETURN TO LIVING AND ECONOMIC CONDITIONS AS THEY EXISTED BEFORE THE DISASTER OCCURRED. ONE EXAMPLE OF A HIGHLY SUCCESSFUL REHABILITATION ASSISTANCE EFFORT AFTER DISASTER WAS IN DOMINICA WHICH WAS DEVASTATED BY HURRICANES DAVID AND FREDERIC IN AUGUST AND SEPTEMBER 1979. APPROXIMATELY 100 PERSONS WERE SERIOUSLY INJURED; AND APPROXIMATELY 2,000 PERSONS SUSTAINED MINOR INJURIES. OVER 70,000 PERSONS WERE AFFECTED, AND THE DESTRUCTION TO CROPS, HOMES, UTILITIES AND COMMUNICATIONS SYSTEMS, ROADS, BRIDGES, INDUSTRIAL ESTABLISHMENTS, SEWERAGE INSTALLATIONS, HOSPITALS AND CLINICS, PORT FACILITIES, EDUCATIONAL FACILITIES WAS ESTIMATED AT OVER $44 MILLION. PRIVATE HOMES AND PUBLIC BUILDINGS SUFFERED SEVERELY; APROXIMATELY 75% OF DOMINICA'S POPULATION WAS LEFT WITHOUT HABITABLE SHELTER. ONE OF THE GOVERNMENT OF DOMINICA'S REHABILITATION PRIORITIES WAS TO PREPARE AND PLANT LAND WITH FOOD CROPS AT THE EARLIEST POSSIBLE TIME IN ORDER TO EASE THE FOOD SHORTAGE, TO PROTECT, AND TO KEEP PEOPLE ON THE LAND. THE U.S. CONTRIBUTION TO THIS EFFORT WAS 50 LBS. EACH OF TOMATO, OKRA, TURNIP AND CABBAGE SEEDS AND 700 LBS. OF POTATO SEEDS. IN ADDITION, CORN SEED WAS PROCURED FROM TRINIDAD, AND 197 BACKPACK AGRICULTURAL SPRAYERS WERE ALSO CONTRIBUTED. OFDA PAID THE PER DIEM FOR A U.S. NAVY SEABEE TEAM TO GO TO DOMINICA WITHIN TEN DAYS AFTER THE HURRICANE HAD SUBSIDED, WITH TOOLS, MATERIALS AND EQUIPMENT. THIS TEAM OF SEABEES CLEARED 65 MILES OF ROAD; WARDS AND OTHER BUILDINGS AT A HOSPITAL WERE REROOFED; NINE BUILDINGS WERE RESTORED TO USE, INCLUDING FIVE WARDS, THE NURSES' QUARTERS, THE KITCHEN, LAUNDRY AND MEDICAL STORES. FOUR PRE-ENGINEERED BUILDINGS WERE ERECTED TO PROVIDE WAREHOUSING FACILITIES AT THE DEEP WATER PORT; POTABLE WATER SYSTEMS IN SIX VILLAGES AND THE PLUMBING

SYSTEM AT A TECHNICAL SCHOOL WERE REPAIRED IN COLLABORATION WITH THE DOMINICA CENTRAL WATER AUTHORITY. THE SEABEE TEAM WAS ORIGINALLY ASSIGNED FOR ONE MONTH, BUT THEIR TOUR WAS EXTENDED AT THE REQUEST OF THE PRIME MINISTER. THEIR MISSION WAS AN UNQUALIFIED SUCCESS. THE TOTAL USG CONTRIBUTION TO THE EMERGENCY RELIEF AND REHABILITATION EFFORT IN DOMINICA WAS SLIGHTLY OVER $4 MILLION IN FY 79/80.

MORE RECENTLY, IN FY 82, OFDA HAS OBLIGATED FUNDS FOR REHABILITATION EFFORTS IN CHAD. WE PROVIDED A GRANT TO THE HOPITAL SANS FRONTIERE, A FRENCH VOLUNTARY AGENCY DELIVERING MEDICAL SERVICES TO ALL AFFECTED PEOPLE (E.G., DISPLACED, REFUGEES, WOUNDED) IN N'DJAMENA TO REPAIR AND REHABILITATE A HOSPITAL AND TO PURCHASE A MULTIPURPOSE VEHICLE. OFDA IS CONSIDERING THE REPAIR AND REHABILITATION OF FOOD WAREHOUSES AND RELATED FACILITIES (THROUGH THE UNITED NATIONS DEVELOPMENT PROGRAM), THE PROVISION OF SEEDS TO FARMERS (THROUGH THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS), THE FUNDING OF IN-COUNTRY TRANSPORT FOR PL 480 FOOD TO BE DISTRIBUTED OUTSIDE N'DJAMENA (IN CONJUNCTION WITH FFP), AND THE REPAIR AND RESTOCK OF THE CHADIAN RED CROSS MEDICAL FACILITY (THROUGH THE LEAGUE OF RED CROSS SOCIETIES).

IN MADAGASCAR, THE AMBASSADOR'S AUTHORITY WAS USED TOWARD A LOCAL RELIEF EFFORT AFTER RECENT FLOODS, AND ADDITIONAL FUNDS OBLIGATED BY OFDA ARE TO BE USED FOR THE REPAIR OF ROAD BUILDING EQUIPMENT. IN UPPER VOLTA, OFDA RESPONDED TO A MENINGITIS OUTBREAK BY FURNISHING FUNDS TOWARD THE PURCHASE IN THE UNITED STATES OF VACCINE, WHICH WILL HAVE A LONG RANGE REHABILITATIVE EFFECT IN THE PREVENTION OF SIMILAR EPIDEMICS.

IN THIS DISCUSSION OF OFDA'S REHABILITATION ACTIVITIES, I DO NOT WANT TO LEAVE YOU WITH THE IMPRESSION THAT WE ARE IN THE LONG-RANGE RECONSTRUCTION BUSINESS. THE LONG-RANGE RECONSTRUCTION OF A DEVASTATED AREA WOULD NORMALLY FALL UNDER AID'S DEVELOPMENT PROGRAMS. IT IS OUR PURPOSE TO BRING IMMEDIATE EMERGENCY RELIEF TO THE VICTIMS OF DISASTER, AND TO HELP THEM

IMMEDIATELY THEREAFTER WITH THE REHABILITATION OF THE FUNCTIONAL NECESSITIES FOR SURVIVAL.

## PRIVATE VOLUNTARY ORGANIZATIONS

AMERICAN VOLUNTARY AGENCIES, WITH SEVERAL THOUSAND FULL-TIME PROFESSIONALS CARRYING OUT DEVELOPMENT AND RELIEF PROGRAMS, ALSO PROVIDE AN IN-COUNTRY MANAGEMENT SERVICE TO THE U.S. DISASTER ASSISTANCE PROGRAM. IN A CONTINUING SPIRIT OF COOPERATION AND MUTUAL BENEFIT, OFDA HAS HOSTED ANNUAL CONFERENCES SINCE 1971 WITH KEY OFFICERS OF SOME 25 PRIVATE VOLUNTARY ORGANIZATIONS MOST INVOLVED IN FOREIGN DISASTER ASSISTANCE TO DISCUSS ISSUES RELATING TO FIELD COORDINATION, AND MOST RECENTLY, THE DISASTER PREPAREDNESS COMPONENT OF OUR MANDATE. FIELD AND HOME OFFICE PVO REPRESENTATIVES HAVE BEEN INCLUDED, AS APPROPRIATE, IN OFDA-SPONSORED DISASTER SEMINARS. WE HAVE INCLUDED IN THE AID HANDBOOK USED BY ALL U.S. AMBASSADORS AND USAID MISSIONS, INSTRUCTIONS TO USE AVAILABLE PVO RESOURCES. OFDA HAS ISSUED GRANTS TO ENABLE PVOS TO CARRY OUT SPECIFIC DISASTER RELIEF ACTIVITIES. PARTICIPATION BY VOLUNTARY AGENCIES IN DISASTER RELIEF HAS BEEN IMPRESSIVE AND MERITS RECOGNITION. AS AN EXAMPLE OF OUR COLLABORATION, FOLLOWING THE CYCLONE IN TONGA IN MARCH, OFDA FINANCED THE TRANSPORT OF 300 TENTS WHICH WERE PROVIDED BY THE SEVENTH-DAY ADVENTISTS WORLD SERVICE. DURING CRISES WE HAVE WORKED CLOSELY WITH VIRTUALLY ALL OF THE PRIVATE VOLUNTARY ORGANIZATIONS AND ARE GRATIFIED WITH THE GRASS-ROOTS SUPPORT THEY HAVE ALWAYS GIVEN US.

## COORDINATION WITH INTERNATIONAL ORGANIZATIONS/AGENCIES

THE OFFICE COORDINATES ITS ACTIONS WITH ALL RELIEF DONORS IN ORDER TO AVOID A WASTE THAT WOULD BE CAUSED BY DUPLICATION, AND TO PRECLUDE THE OMISSION OF A NEEDED COMMODITY OR SERVICE. WE CURRENTLY COORDINATE WITH MANY INTERNATIONAL ORGANIZATIONS AND AGENCIES SUCH AS THE UNITED NATIONS DISASTER RELIEF OFFICE (UNDRO), THE ORGANIZATION OF AMERICAN STATES (OAS), THE PAN AMERICAN HEALTH ORGANIZATION (PAHO), THE EUROPEAN ECONOMIC COMMUNITY (EEC), THE LEAGUE OF RED CROSS SOCIETIES (LORCS), THE INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC), THE UNITED NATIONS HIGH

Commissioner for Refugees (UNHCR), and the North Atlantic Treaty Organization (NATO).

## OTHER DONOR NATIONS

The United States is not alone in its humanitarian efforts to support emergency management efforts in international disasters. Consistent donors include Australia, Federal Republic of Germany, France, Japan, Norway, Sweden, Switzerland, the United Kingdom, as well as the United Nations system, indigenous Red Cross Societies and other international organizations and agencies. In addition to cash donations, many donors also provided in-kind assistance for which dollar values are not available, and many international donors contributed their share of commodities through such organizations as the World Food Program (WFP), EEC, UNICEF, and other UN organizations and voluntary agencies.

The Organization of Petroleum Exporting Countries (OPEC) and Arab/Islamic organizations within these countries have been most generous in responding to natural and manmade disasters to which the USG also responded.

In summary, Mr. Chairman, we in the Office of U.S. Foreign Disaster Assistance are totally dedicated to the mitigation of the impact of disaster on potential victims. We believe this can best be done through a combination of prediction, preparedness, relief and rehabilitation. We appreciate the support of your Subcommittee and the staff, and will be happy to answer any questions you, the other Members, or the staff may have.

## OFDA FISCAL YEAR 1983 REQUEST

Senator **Kasten**. Thank you very much.

The numbers that you are talking about in terms of dropoffs and reductions are essential for certain countries, and you are suggesting that Mother Nature has helped a lot and they have avoided the tragedies, or they have been able to take on more on their own.

But those six countries notwithstanding, your fiscal year 1983 request for nonemergency relief and rehabilitation funds is roughly 100 percent over what you had for fiscal year 1981, according to our numbers, and 1983 as compared to 1982 is an increase of 40 percent.

Mr. **Howell**. Yes, sir; your numbers are correct.

Senator **Kasten**. These are huge increases, especially in view of the belt-tightening elsewhere. You, I am sure, heard my conversation with the previous witness.

Now, are you anticipating that other countries in the world are going to do less than their share, that there are going to be more disasters or problems, or how can we justify a 40-percent increase in 1983 over 1982, for example?

Mr. **Howell**. In 1981, for example, we spent roughly $3 million in preparedness activities—which really began in 1976. One reason that in 1981 we were able to turn in over half of our budget of $23 million or $12 million, was because of this emphasis on preparedness.

Now, again, Mr. Chairman, this was largely a result of pure luck and Mother Nature, but disaster preparedness activities played a not inconsiderable role. I believe if we can get people, when they go into a hotel, to start looking for the exits before the fire starts, or to plan just what they would do in case of fire, it will save lives. This hurricane preparedness newspaper is from Jamaica. It is very good. It has both the opposition, Mr. Manley and Mr. Seaga, Prime Minister of Jamaica, urging Jamaicans to prepare for the hurricane season.

## PREPAREDNESS

Senator **Kasten**. Well, is your answer to my question the reason it is 40 percent over 1982 because you are doing more for preparedness?

Mr. **Howell**. We will be doing more preparedness and we think it is worth every cent that we can put into it because, in the last analysis, the life-saving work that will be done in almost any disaster is what can be done in the first 24 hours. If we can get these people trained so that they can take care of their own, then eventually it is my hope to put my office out of business.

Senator **Kasten**. I do not think we are going to do that but also, there is a matter of budget restraint here that I think we have to be concerned about and aware of.

But your answer to my question is that we are going to spend relatively more on disaster preparedness and disaster prevention, and try to know how to react if and when disaster occurs.

Mr. **Howell**. Plus some prediction and early warning systems because, if I may cite one more example, in Bangladesh there were some 400,000 killed in the cyclone back in 1970. We do have a tracking system there which I think compares favorably to the Hurricane Tracking Center in Miami. A hurricane hit there last fall and there were some 12 deaths. I think this has to be partially attributable to the fact that our prediction and early warning systems have improved.

If we can get people away from the storm surge, we are going to save lives.

### LEBANON

Senator **Kasten**. Last week the Congress received an urgent request by the administration for additional legislation in order to provide disaster assistance to Lebanon.

Mr. **Howell**. Yes; I am aware of the urgent request.

Senator **Kasten**. First of all, could you describe the situation in Lebanon as far as you know it as of this hour, in terms of what the needs might be, what the refugee situation might be, and what disaster assistance is needed? If you could just give me a brief description of how you evaluate the situation as it is right now.

### SITUATION REPORTS

Mr. **Howell**. Yes. I would like to submit for the record also our situation reports which are current as of 5 o'clock last night.

Senator **Kasten**. All right.

[The document follows:]

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

June 14, 1982

FOR MEMBERS OF CONGRESS

## LEBANON CIVIL STRIFE--SITUATION REPORTS 1 AND 2

Attached are Situation Reports #1 and #2 on the civil strife in Lebanon, which has been prepared by the Office of Foreign Disaster Assistance, Agency for International Development.

On Friday, June 11, the President sent to Congress a special bill providing authority for $20 million for emergency relief, rehabilitation, and reconstruction assistance to alleviate the human suffering caused by the recent strife in Lebanon. In the meantime, we are making available immediately an additional $5 million in emergency assistance for foodstuffs, shelter, medicine and other critically needed supplies.

I would be happy to furnish any additional information you may require as the Congress acts upon the Lebanon Emergency Relief, Rehabilitation, and Reconstruction Act of 1982.

Michelle D. Laxalt
Michelle D. Laxalt
Director
Office of Legislative Affairs

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Situation Report No. 1
Friday, June 11, 1982
5:00 p.m.

## Lebanon - Civil Strife

Date:

| | |
|---|---|
| Date: | June 4, 1982 |
| Location: | Countrywide |
| Dead: | Unconfirmed |
| Injured: | Unconfirmed |
| Homeless: | Partial Estimate: 16,000 - Chouf region |
| People Affected: (including homeless) | Estimated 350,000 in South |
| Damage: | Severe, not quantified |

General Situation:

— On June 4, 1982, Israel began shelling Palestinian positions in Lebanon. This was followed by an invasion by Israeli troops that has resulted in Israel's occupying the South of Lebanon. Tyre and Sidon, for example, are under Israeli control.

— Civilian populations, including Lebanese and Palestinian refugees, have been displaced.

-- A cease-fire between Israeli and Syrian troops, but not with Palestinians, is in effect.

— Reports indicate that the Beirut airport is heavily damaged and closed, and that the port there is also closed.

— The various humanitarian agencies active in Lebanon have been meeting to coordinate their efforts.

Action Taken by the Government of Lebanon (GOL)

-- Lebanese authorities have requested U.N. humanitarian assistance for 300,000 families (1.5 million people).

Assistance Provided by the United States Government (USG)

— On June 9, 1982, N. A. Veliotes, Assistant Secretary of State for Near East and South Asian Affairs in consultation with Ambassador Dillon in Beirut, determined that a disaster situation of major proportions exists in Lebanon. He exercised his $25,000 disaster assistance authority. These funds may be granted to the International Committee of the Red Cross, to the American University Hospital in Beirut, or to Secours Populaire Libanais.

— A grant in the amount of $200,000 has been given to the International Committee of the Red Cross for humanitarian relief.

— President Reagan announced that the USG will provide up to $5 million in humanitarian assistance as soon as avenues for aiding victims of the conflict open up.

— A request has been submitted to Congress for an additional $20 million to provide emergency relief, rehabilitation and reconstruction aid.

Assistance Provided by U.S. Voluntary Agencies

-- Catholic Relief Services - $200,000 for emergency purchases and assistance through CRS's regular programs (which include social welfare, housing, health); plans to launch a Middle East appeal.

— Church World Service - $30,000 through the World Council of Churches to the Middle East Council of Churches which has been carrying out relief, rehabilitation, and reconstruction activities since the civil war of 1975-76.

— Save the Children Foundation - seeking information from its field staff.

## Assistance Provided by the International Community

### U.N. System

-- The Secretary General has issued an appeal for humanitarian aid (medical, tents, blankets, water purification, childrens' food, cash) through the Office of the U.N. Disaster Relief Coordinator.

-- UNRWA - (United Nations Relief and Works Agency) - $500,000 authorized for blankets and meat; $1 million in stocks available for UNRWA-registered Palestinian refugees

-- UNICEF - $50,000 authorized for local purchases to benefit mothers and children; planning joint logistics base with ICRC in Cyprus

-- UNHCR (U.N. High Commissioner for Refugees) - $200,000 for the proposed UNICEF - ICRC Cyprus operation

-- WFP (World Food Program) - provisional planning for feeding 300,000 people for one month using wheat flour, powdered milk, and vegetable oil (all valued at $5-6 million)

## Inter-Governmental Organizations

-- EEC - $200,000 to the ICRC.

## Voluntary Organizations

-- International Committee of the Red Cross - appeal for funds to augment regular program of medical and relief assistance plus tracing activities; medical supplies and medical teams on standby for earliest possible arrival in Lebanon (2 teams have already arrived); 9 delegates in country; relief and protection for 10,000 people in Tyre; evacuation of wounded from Tyre and Sidon

-- World Council of Churches - $337,816 to the Middle East Council of Churches; calling forward $359,000 in pledges to the MECC program

-- Finnish Red Cross - medical team under ICRC auspices

-- Norwegian Red Cross - medical team under ICRC auspices

## Governments

-- Sweden - $143,000 to the Swedish Red Cross to fund medical personnel departing June 12 for Lebanon via Cyprus under the auspices of the ICRC

-- Tunisia - 12-person medical team with 3 tons medical supplies to work with the Lebanese Red Cross and Palestinian Red Crescent

-- Turkey - medical supplies and doctors through the Turkish Red Crescent

Martin D Howell
Martin D. Howell, Director
Office of U. S. Foreign
Disaster Assistance

Situation Report No. 2
Monday, June 14, 1982
5:00 p.m.

## Lebanon - Civil Strife

**Date:**

| | |
|---|---|
| Date: | June 4, 1982 |
| Location: | Countrywide |
| Dead: | Unconfirmed |
| Injured: | Estimated 3,400 wounded in Sidon, Tyre, Jezzine |
| Homeless: | Partial Estimate: 16,000 - Chouf region |
| People Affected: (including homeless) | Estimated 350,000 in South |
| Damage: | Severe, not quantified |

### General Situation:

- On June 4, 1982, Israel began shelling Palestinian positions in Lebanon. This was followed by an invasion by Israeli troops that has resulted in Israel's occupying the South of Lebanon. Tyre and Sidon, for example, are under Israeli control.
- Civilian populations, including Lebanese and Palestinian refugees, have been displaced.
- A cease-fire is in effect.
- Reports indicate that the Beirut airport is heavily damaged and closed, and that the port there is also closed.
- The various humanitarian agencies active in Lebanon have been meeting to coordinate their efforts.
- Priority needs have been identified as medical supplies and personal items such as soap and blankets. Food will be needed. Tents may be needed only later. Needs have not yet been quantified.

### Action Taken by the Government of Lebanon (GOL) and Lebanese Groups

- Lebanese authorities have requested U.N. humanitarian assistance for 300,000 families (1.5 million people).
- The Lebanese Red Cross and Palestinian Red Crescent are providing medical and relief assistance.
- The Middle East Council of Churches will be coordinating efforts of some 15 local agencies (including Popular Committee, AMEL, NAJDA, Haigazian College Relief Committee, American U. Student Committee) and working with the international Red Cross movement.

### Assistance Provided by the United States Government (USG)

- On June 9, 1982, N. A. Veliotes, Assistant Secretary of State for Near East and South Asian Affairs in consultation with Ambassador Dillon in Beirut, determined that a disaster situation of major proportions exists in Lebanon. He exercised his $25,000 disaster assistance authority. These funds may be granted to the International Committee of the Red Cross, to the American University Hospital in Beirut, or to Secours Populaire Libanais.

— A grant in the amount of $200,000 has been given to the International Committee of the Red Cross for humanitarian relief.

— President Reagan announced that the USG will provide up to $5 million in humanitarian assistance as soon as avenues for aiding victims of the conflict open up.

— A request has been submitted to Congress for an additional $20 million to provide emergency relief, rehabilitation and reconstruction aid.

Assistance Provided by U.S. Voluntary Agencies

-- American Friends Service Committee - $25,000 to World Council of Churches.

— CARE - exploring possibility of sending medical teams.

— Catholic Relief Services - $200,000 for emergency purchases and assistance through CRS's regular programs (which include social welfare, housing, health); plans to launch a Middle East appeal.

-- Church World Service - $30,000 through the World Council of Churches to the Middle East Council of Churches which has been carrying out relief, rehabilitation, and reconstruction activities since the civil war of 1975-76.

— Save the Children Federation - seeking information from its field staff, has launched major appeal.

Assistance Provided by the International Community

U.N. System

— The Secretary General has issued an appeal for humanitarian aid (medical, tents, blankets, water purification, childrens' food, cash) through the Office of the U.N. Disaster Relief Coordinator.

— FAO (Food and Agriculture Organization) - The Director-General has issued an appeal for food and cash contributions.

— UNDRO (Office of the U.N. Disaster Relief Coordinator) - Representative to Cyprus; $30,000.

— UNHCR ( U.N. High Commissioner for Refugees) - $100,000 for the UNICEF - ICRC Cyprus operation.

— UNICEF - $50,000 authorized for local purchases to benefit mothers and children; planning joint logistics base with ICRC in Cyprus; also planning delivery of supplies from UNIPAC through Damascus.

— UNRWA (United Nations Relief and Works Agency) - $500,000 authorized for blankets and meat; $1 million in stocks available for UNRWA-registered Palestinian refugees.

— WFP (World Food Program) - provisional planning for feeding 300,000 people for one month using wheat flour, powdered milk, and vegetable oil (all valued at $5-6 million).

— WHO (World Health Organization) - $30,000.

Inter-Governmental Organizations

— EEC - $200,000 to the ICRC.

Voluntary Organizations

— ICRC - (International Committee of the Red Cross) - 29 staff in country; relief and protection for 10,000 people in Tyre; evacuation of wounded from Tyre and Sidon; 2.5 tons blankets, milk powder, mattresses all valued at $8,381 (18,700 Sw. fr.); 15 tons of local food valued at $15,525 (31,800 Sw. fr.); medical supplies to Lebanese Red Cross and Palestinian Red Crescent hospitals ($3,954 = 8,100 Sw. fr.); appeal launched for $18,795,700 (38,500,000 Sw. fr.) to cover assistance over a three-month period with 250,000 people to be helped in the first month; medical teams from national societies and 3 field hospitals on standby for earliest possible arrival in Lebanon (2 teams have arrived); 10 tons blankets, medicines, tents to Cyprus for onward delivery.

— World Council of Churches - $337,816 to the Middle East Council of Churches; calling forward $359,000 in pledges to the MECC program.

— Finnish Red Cross - medical team (1 general surgeon, 1 anaesthetist, 1 nurse) under ICRC auspices.

— French Red Cross - medical team (same composition as above) and medical coordinator recruited.

— FRG Red Cross - medical team (same as above) recruited.

— Norwegian Red Cross - medical team (same as above) under ICRC auspices; medical coordinator recruited.

— Swedish Red Cross - medical team (same as above) and medical coordinator recruited.

Governments

— Bangladesh - plans to send a medical team.

— Italy - cash, 10 metric tons meat and 6,000 metric tons rice with total value of $368,000.

— Sweden - $143,000 to the Swedish Red Cross to fund medical personnel departing June 12 for Lebanon via Cyprus under the auspices of the ICRC.

— Tunisia - 12-person medical team with 3 tons medical supplies to work with the Lebanese Red Cross and Palestinian Red Crescent.

— Turkey - medical supplies and doctors through the Turkish Red Crescent.

— USSR - planeload of medicines.

Martin D. Howell, Director
Office of U. S. Foreign
Disaster Assistance

### CASUALTY FIGURES

Mr. **Howell**. The situation, of course, has somewhat stabilized, but I met immediately before I came up here with Father Charlebois of the Catholic Relief Services and based on what we have been able to glean, what he has been able to glean—and I have also been in contact with the ICRC in Geneva; the International Committee of the Red Cross; with the League of Red Cross Societies and the United Nations Disaster Relief Office, the number of affected persons varies from 350,000 upward.

The number of dead in Sidon varies from tens to over a thousand.

Senator **Kasten**. These are wide ranges.

Mr. **Howell**. They are wide ranges, yes, sir. They are rough estimates only because they have not been able to get into the rubble and actually look and see what is there, and how many people have escaped. But we do have family separations; and fortunately the ICRC is operating to the south of the forward Israeli line.

Some private volunteer organizations have pulled out. For example, the CRS have pulled their people back to Cyprus and are waiting to go back in. They presented me with a proposal for $1.7 million today at 11 o'clock which, of course, exceeds what I have right now in my budget for Lebanon relief.

I talked this morning with the Church World Service's Representative, Mr. Stanley Mitton. He tells me that right now, while there is no need for tentage and no need for whole blood, that there will be a need for some medical supplies, food, and blankets.

Senator **Kasten**. Go ahead.

Mr. **Howell**. I think the main point of contention right now is access to the people. The Port of Juniyah which is some 12 miles to the north of Beirut is still open. The ports to the south, both in Sidon and Tyre, are not. So therefore, to put it simply, we can go in perhaps through Juniyah; or perhaps through Israel or Damascus for relief activities.

Senator **Kasten**. It seems to me that when I hear you talking about what happened at 11 o'clock today, whatever, the point I am going to make is that we ought to act and move now, and not worry about this legislative process.

Mr. **Howell**. I would agree with you, Mr. Chairman.

Senator **Kasten**. I want to just establish, first of all, is it not a fact that you already have adequate authorities to do what is needed under 492(b)?

Mr. **Howell**. You are absolutely correct, Mr. Chairman.

### FUNDING AVAILABLE FOR TRANSFER

Senator **Kasten**. And that we do have also—it might not be $20 million but it might be in the neighborhood of $20 million—a balance in the account that we can move and act immediately. Is that correct?

Mr. **Howell**. That is correct, Mr. Chairman. If you recall, the President said that we had $5 million immediately available. This consists of $3 million in Food for Peace funds, and $2 million out of my budget.

Senator KASTEN. From our analysis there is at least another $18 million there that could be used; is that right?

Jim says out of other accounts that could be transferred in, it could be available to you.

Mr. HOWELL. I had a meeting at 1 o'clock on this and the General Counsel, Legislative Affairs, and financial management are examining the options. But with my moneys we have moved ahead, Mr. Chairman, we have provided $200,000 to the ICRC. This was done last Thursday.

Senator KASTEN. What is the difference between your office and the General Counsel people? Why is it that someone over there is saying you do not have $20 million that could be provided now through transfers? Who is saying that, and what are they saying?

Mr. HOWELL. Mr. Chairman, I can only speak to my own budget.

Senator KASTEN. Yes.

Mr. HOWELL. We have been examining alternative sources of funding from which to borrow with a minimum of costly disruption to existing programs. We have also been looking at additional funds—I think from State's refugee program. I can speak for my own budget, and in my own budget I have $3.9 million. I earmarked $2 million for aid to Lebanon. That leaves me with about $1.9 million. I would have had $1.7 million but I recovered $250,000 through the guidance of your staff.

### AVAILABLE FUNDS FOR LEBANON

Senator KASTEN. What I am concerned about is that we have large amounts of money—maybe it is not in your account right now—and that that money can be and ought to be shifted. Whether or not the Congress approves this urgent request for the additional disaster assistance in the form of a supplemental or whatever it is, we believe that you have the authority and you have the money right now.

I am hopeful that we are going to be able to work with you and work with others in the administration because I think that time is what is going to be important and if you have groups that are waiting for it in Cyprus and you have groups that are waiting to go forward with different kinds of aid, I would hope that we could work ourselves through this bureaucractic quagmire and simply get the dollars there.

We feel that you have the $20 million available, or that $20 million is available in the pot over there and ought to be made available to the effort in Lebanon as soon as possible.

Mr. HOWELL. I appreciate your sentiments, Mr. Chairman, they coincide with mine. I will take your views back to Peter McPherson today.

Senator KASTEN. I am sure this is not the last discussion we are going to have on this subject.

### CURRENT STATUS OF LEBANON RELIEF

What has been done so far, have we done anything at all?

Mr. HOWELL. Yes, sir. As I say, I furnished $200,000 to ICRC last Thursday. The Ambassador exercised his $25,000 obligation authority which he has available immediately upon disaster determination. I understand that $20,000 of that has gone to the American University Hospital there.

Senator **Kasten**. I understand it is just absolutely overrun.

Mr. **Howell**. It probably is, but we understand that fortunately they had the foresight to have about 6 months' medical supplies at hand. And another $5,000 went to Haigazium College, a group of American-trained surgeons who are in Lebanon.

### DISASTER PREDICTION

Senator **Kasten**. On the disaster prediction part of your testimony, how much of that, first of all, ought to be an internationally supported effort through the United Nations or through some other international agencies, and how much of this work is in fact being done by international agencies?

In other words, if we are working to help the entire world, it would seem to me that the entire world ought to be as concerned as we are about the disaster prediction part of what you do.

Mr. **Howell**. Let me split that in two parts if I might, Mr. Chairman. One would be working through international organizations such as the United Nations; the other would be working bilaterally.

In every one of our bilateral efforts we try to involve the countries or a group of countries so that they provide some part of the budget. That is one of our requirements. We like to have them provide 40 percent. Obviously in some countries, in the least developed countries, they cannot do that.

But for example in a country like Peru where we put in a seismic monitoring system, their contribution was approximately 40 percent.

Senator **Kasten**. If you are dealing with Bangladesh, obviously you cannot do that.

Mr. **Howell**. We are in trouble there with the exception that we have found exceptionally able people, Bangladeshis, who are now operating that equipment; the same thing is true in the Fiji Islands.

We also have an operation in the Caribbean, the so-called Pan Caribbean Preparedness Team, which is stationed in Antigua. We fund that along with the United Nations Disaster Relief Office. The total funding is approximately $500,000, of which we provided $250,000. The European Economic Community has provided $250,000. There is an additional small contribution by Sweden, and another small contribution by the League of Red Cross Societies.

Any time that we can get another country to come in and efficiently do the job, we want to save the taxpayer that dollar. Unfortunately this is not always the case. Through the years, our bilateral efforts have been more successful than those through international organizations.

Taking Chad for an example, we do work these through the Food and Agricultural Organization; and through the World Food program. We try to work through the organization which can best deliver the goods on the ground, whether it is a private voluntary organization or an international organization.

## OTHER DONORS

Senator **Kasten**. This is obviously a struggle that is not only in your particular area. I do not know, for example, the contribution of Japan. I do not know the kind of contributions the OPEC countries might be making in these efforts. I do not know the contribution that the United Nations and others might be making.

But it is the concern of the subcommittee that we work as much as possible to start to spread the expense of these kinds of programs. This one just happens to fit, I think, in this category because this country, I believe, has done its share. We want to continue to do our share but we would like to start to bring in other funding efforts from some of the other countries—those that are affected by these kinds of disasters and those that are not affected but that have an interest in world stability.

Mr. **Howell**. We certainly share that. And I must say that the other countries of the world have been quite generous, especially in relief operations. We have gotten them for the first time to participate in this Pan Caribbean Preparedness Team. We are trying to educate them as to the importance of putting some of their money into preparedness, prediction, and early warning. I think we will be successful.

As a matter of fact, depending on the situation in Lebanon, I am scheduled to go down to Cancun next week to meet with the Mexicans—this is an international conference—and hopefully impress upon them the importance of preparedness and early warning.

## USE OF NASA IN EARLY WARNING PROGRAMS

Senator **Kasten**. To what extent do you use NASA as a resource in your prediction and early warning programs? I know they are doing some work in this area. I do not know what kind of work they do. Are you working closely with them?

Mr. **Howell**. We have not worked as closely with NASA, up to now, as we have with NOAA. We work very closely with NOAA and the U.S. Geological Survey. Mr. Krumpe was very effective in developing an agroclimatic system which has been quite successful.

I think I can safely tell you 3 months ahead when we are going to have a drought throughout at least 80 percent of the world. We are working on the 15 to 20 percent right now. But I think we are really making breakthroughs there.

One more example, we thought we could predict the outbreak of swarms of locusts, and we are running into a little problem right now in getting the proper guarantees—I think you would say—from FAO in Rome that once we put the seed money in, they will continue the program.

I think the committee staff were concerned and put a hold on that. We have our representative to the FAO coming in, Mr. Furman, and we are going to discuss this at length with him. I hope that you and the staff can spare us some time.

Senator **Kasten**. I thank you. We have a vote on. There are some additional questions that we will submit for the record.

Mr. **Howell**. Good, we will answer them to the best of our ability.

Senator KASTEN. I am sure that other Senators will have questions to be submitted for the record. I thank you very much for your testimony and I look forward to working with you.

Mr. HOWELL. Thank you very much, Mr. Chairman.

Senator KASTEN. I will recess the subcommittee for 5 minutes.

[Whereupon, a short recess was taken.]

## AMERICAN SCHOOLS AND HOSPITALS ABROAD

## STATEMENT OF DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD, AGENCY FOR INTERNATIONAL DEVELOPMENT

### ASPECTS OF PROGRAM

Senator KASTEN. The subcommittee will come to order.

Mr. David Santos is the Director of the Office of American Schools and Hospitals Abroad.

Mr. Santos, go ahead and summarize your statement. Your entire statement will be made part of the record.

Mr. SANTOS. Thank you, Mr. Chairman.

Briefly, I would like to comment on a few aspects of the American Schools and Hospitals Abroad program which have been addressed by members of this subcommittee in recent years, specifically our grant selection process; geographic balance in the distribution of funds; improving emphasis on institutions in poorer countries, and reducing the amount of operational support.

I think most of these concerns have been pretty well addressed in recent years, and I would like to make note of that.

Our grant selection process is based, as it has been since 1979, on an assessment of all proposals by a group of reviewers from within and without the agency. The proposals are evaluated for need, impact, and cost-effectiveness, as well as the degree to which applicants meet the program criteria which were published in the Federal Register in 1979 and, in fact, in reports of this subcommittee.

The evaluation system, I think, has worked well considering the keenly competitive nature of the program. We believe the process provides the most objective means of arriving at grant decisions.

### ASSISTANCE TO INSTITUTIONS

In terms of geographic balance, this has improved markedly. There has been a 50-percent increase in assistance to institutions in Africa, Asia, and Latin America in the past 4 years, 1979 through 1982, compared with the previous 4 years. And by comparison with the first 4 years of the 1970's, the increase is 150 percent.

I might note this increase has occurred within a budget which has remained essentially static and one which in real terms has declined.

The percentage of assistance going to institutions in Europe has declined from a high of almost 25 percent in the middle 1970's to 6 percent this year and last year.

Assistance for institutions in the Near East has declined from a high of over 90 percent in 1970 to under 50 percent in each of the past 5 years.

Grants for operating support have also declined in a period of worldwide inflation during which operating expenses of most institutions have increased by 50 to 100 percent.

In general, increases in operating costs have been offset by efforts of institutions to control costs, improve efficiency, and increase revenues from tuition, fees, and private contributions. Approximately two-thirds of our resources are now used to help institutions to improve their facilities. In 1975 and 1976 operating support was almost 50 percent.

In this fiscal year we are assisting 26 institutions, fewer than half of those which sought assistance. Over 1 million students and patients this year will be direct beneficiaries of the educational and medical programs of these 26 institutions. And during this calendar year, 48 institutions in 32 countries will be carrying out ASHA-financed activities, financed this year and with prior year grants.

The ability of grant recipients to transfer American know-how and contribute to economic and social development rests essentially with the energy, dedication, and resources of thousands of U.S. citizens and the host country nationals with whom they work.

For fiscal year 1983, we are requesting $7.5 million to help promote the effectiveness of these American-sponsored schools and hospitals overseas.

I will be glad to answer any questions that you may have, Mr. Chairman.

[The prepared statement of David A. Santos follows:]

## PREPARED STATEMENT OF DAVID A. SANTOS
DIRECTOR

AMERICAN SCHOOLS AND HOSPITALS ABROAD

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to appear before this Subcommittee on behalf of the Agency for International Development's American Schools and Hospitals Abroad (ASHA) program.

The efforts and resources of thousands of U.S. citizens have built and sustained a significant number of private, non-profit schools and hospitals overseas which serve the citizens of foreign countries. These institutions provide to millions of people the benefits of American advances in education and medicine.

During this calendar year, 48 institutions in 32 countries will be carrying out ASHA financed activities. These grants are strengthening the capacity of institutions to transfer American know-how and to train people capable of promoting economic and social development. More specifically, these grants are helping institutions to build and renovate facilities; to upgrade medical, scientific and teaching equipment; and to meet the costs of operating educational and medical programs.

American-sponsored schools and hospitals overseas have an impressive self-help record. They meet most of their operating expenses from tuition and fees, private contributions, endowment fund earnings, and the sale of services. The combined operating expenses of the 25 institutions selected to receive assistance in Fiscal Year 1982 exceed $252 million. We are contributing $6.5 million toward operating expenses and $13.5 million for permanent facilities and equipment.

In the past, this Committee has expressed interest in ASHA's widening the geographic distribution of institutions receiving assistance and giving greater priority to institutions in poorer countries.

In the fiscal years 1979 through 1982, assistance to institutions in Africa, Asia and Latin America increased by 50% over the previous four fiscal years. The increase is 150% when FYs 1979-

1982 are compared with 1971-1974. The average of the ASHA budgets for the recent four fiscal years increased 3.5% over the previous four years and 14% over the years 1971-1974. Thus, the increases in assistance to Africa, Asia and Latin America are essentially a reflection of increasing competition offered by institutions in those three regions to institutions in Europe and the Near East, rather than increases in the overall ASHA budget.

This Committee has also expressed interest in ASHA's reducing its support for operational expenses. Operating support grants have declined from a high of $10.9 million in Fiscal Year 1976 to $6.5 million in Fiscal Year 1982, an amount equal to 2.5% of the total operating costs of the 25 institutions receiving grants this year. Operating support grants have thus decreased in a period of worldwide inflation during which the operating expenses of institutions have increased by 50 to 100 percent. In general, increases in operating costs during this inflationary period have been offset by the continuing efforts of institutions to control costs, improve efficiency and increase revenue from tuition, fees and private contributions.

For Fiscal Year 1983, the Executive Branch requests $7.5 million for the ASHA program. Selection will continue to be based on an evaluation of applicants by Agency and outside reviewers who will assess proposals for need, impact and cost effectiveness as well as the degree to which the applicants meet the program criteria published in the Federal Register.

We recommend this public investment to promote the effectiveness of American-sponsored institutions overseas.

Attachments
- Institutions using FY 1982 and prior ASHA grants during calendar 1982
- ASHA program criteria

## INSTITUTIONS USING FY 1982 AND PRIOR ASHA GRANTS DURING CALENDAR 1982

An Asterisk (*) Indicates FY 1982 Grantees

Adventist Hospital of Haiti
*American Center for Oriental Research, Jordan
*American Children's Hospital, Poland
*American College of Greece
*American Farm School, Greece
*American Hospital of Istanbul, Turkey
*American University of Beirut, Lebanon
*American University in Cairo, Egypt
Anatolia College, Greece
*Ateneo de Davao University, Philippines
Beirut University College, Lebanon
Beth Zeiroth Vocational School, Israel
*Bologna Center of Johns Hopkins University, Italy
*Boys Town Jerusalem, Israel
Ch'san Sofer Chasan Institute, Israel
Cuttington University College, Liberia
*Esperanca, Brazil
*Feinberg Graduate School of Weizmann Institute
 of Science, Israel
Gan Yavne Youth Village, Israel
Good Shepherd Hospital, Zaire
*Hadassah Medical Center, Israel
Heri Hospital, Tanzania
Hospital de la Familia, Guatemala
*Hospital St. Croix, Haiti
International College of Beirut, Lebanon
*Jerusalem Academy, Israel
Kanye Hospital, Botswana
Ludhiana Medical College, India
*Malamulo Hospital, Malawi
Mount of David Crippled Children's Hospital, West Bank
Mugonero Hospital, Rwanda
Mwami Adventist Hospital, Zambia
Ohr Somayach School, Israel
*Or Hachayim Girls College, Israel
*Panamerican Agricultural School, Honduras
*Payap College, Thailand
*Presbyterian Medical Center, Korea
*Project HOPE Schools of Health Sciences, Antigua, Barbados,
 Brazil, Costa Rica, Jamaica, Kenya and St. Lucia
Robert College, Turkey
Shaare Zedek Hospital, Israel
*Sogang University, Korea
Soong Jun University, Korea
Tel Aviv Vocational School, Israel
Trinity College, Philippines
*University of the Valley, Guatemala
*University of the Americas, Mexico
*Vellore Medical College and Hospital, India
Xavier University, Philippines

## AGENCY FOR INTERNATIONAL DEVELOPMENT
## American Schools and Hospitals Abroad Program

### Program Criteria

Pursuant to section 214 of the Foreign Assistance Act of 1961, as amended, grant assistance is made available to selected schools, libraries, and hospitals overseas founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States and as centers for medical education and research. Grants made under this program help such institutions demonstrate to people overseas the achievements of the United States in education and medicine.

In evaluating requests for assistance AID will apply the following criteria:

1. The applicant should be a nonprofit U.S. organization which either founded or sponsors the institution for which assistance is sought. Preferably, the applicant should be tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1954.

The applicant must demonstrate a continuing supportive relationship with the institution. Evidence of this would be the provision of financial and management support for the institution.

2. An instruction program must serve the secondary or higher level and must reflect American educational ideas and practice (education at the elementary school level will not be supported).

A school offering a broad-based academic program must include instruction on the history, geography, political science, cultural institutions or economics of the United States. English should be used in instruction or taught as a second language. However, the foregoing subject matter and language requirements need not apply to a school offering a specialized course of study.

3. Institutions are expected to reflect favorably upon and to increase understanding of the United States.

4. A hospital center, in addition to being a treatment facility, must be involved in medical education and research.

Programs for post graduate training of staff in the United States and programs for the exchange of personnel with American institutions will be regarded as evidence of ability to demonstrate American ideas and practices in medicine.

5. The faculty and staff of a school or a hospital center should include a significant number of U.S. citizens or other persons trained in U.S. institutions who are in residence and teaching at the school or hospital center on either a full-time or part-time basis.

6. The majority of the users of any institution, e.g., students or patients, must be citizens of countries other than the U.S.

7. An existing institution must demonstrate competence in professional skills and must exhibit sound management and financial practices. An applicant for a new institution must demonstrate the ability to achieve professional competence and to operate in accordance with sound management and financial practices.

8. The institution must be open to all persons regardless of race, religion, sex, color or national origin. (The above shall not be construed to require enrollment of students of both sexes at an educational institution enrolling boys or girls only.) Assistance may not be used to train persons for religious pursuits or to construct building or other facilities intended for worship or religious instruction.

9. The institution must be located outside the U.S. and should not be under the control or management of a government or any of its agencies. The receipt of financial or other assistance from a government or government agency or the observance of national educational or medical standards required by the country where the institution is located does not in itself mean that the institution is "under the control or management" of such government.

10. An applicant requesting capital construction assistance must provide information sufficient to permit a firm estimate of the total cost to the U.S. Government of the construction for which assistance is requested. Such an applicant must also provide information and assurances with respect to rights to the land on which construction is planned.

11. To help achieve the objectives of the Foreign Assistance Act and ensure that the American Schools and Hospitals Abroad program is as geographically balanced as possible, special consideration will be given to applications for institutions which increase the geographic distribution of the program and contribute to the economic and social progress of areas that are the focus of AID's development efforts.

## BUDGET REQUEST

Senator KASTEN. Last year, and probably again this year and looking back, going all the way back to 1970, the executive branch has requested relatively low amounts of money for this program, and the legislative branch has responded by in some cases doubling the amount.

Again, I think, the administration is asking for much less than they know is going to be provided this year. I just wonder if you are aware of this ping pong ball that seems to be going back and forth.

No. 2, are you and is the administration aware of the fact that although a direct link might not be discussed, it is pretty clear that when we add money for this program we take it away from one of the other programs within our overall request?

Are you aware of what has been going on for the last 8 or 10 years, and do you not think it is probably appropriate to ask for a reasonable level of funding at the outset?

Mr. SANTOS. Well, I clearly am aware of it, yes. I also, I am sure you realize, do not set the budget requests for the agency.

Senator KASTEN. But you make recommendations, and I am sure that you come forward and are consulted in the overall budget process.

Mr. SANTOS. That is correct, we do an annual budget submission each year. But we do not have control over the outcome of the process.

Senator KASTEN. I understand that. I mean, it just seems to me, just watching this now for a couple of years and looking back over what has been happening, it is silly.

If we were to provide you with your request, just the dollars which you are asking for, which institutions would you fund? Do you have any ranked now?

Mr. SANTOS. No, we do not. We presently have requests for over $70 million from 56 different institutions. We would go through our regular evaluation process and try to determine how best we could allocate those funds and accomplish useful objectives. Obviously, we would be making fewer grants and at lesser amounts.

Senator KASTEN. Right now your requests are from 56 institutions for roughly $70 million?

Mr. SANTOS. Yes.

### REPROGRAMING OF FISCAL YEAR 1982 FUNDS

Senator KASTEN. Yesterday the committee received a reprograming request which provides $750,000 to a project which has previously received funding by taking it away from a school project in Thailand. Are you aware of that reprograming?

Mr. SANTOS. Yes.

Senator KASTEN. Did you consult and get agreement from the Thai recipient before you made that decision?

Mr. SANTOS. Yes, they are aware of it. Our intent is to provide funds from next year's account since we are mortgaging next year's program by $150,000 so that that project—which is construction of science labs at the school in Payap College in Thailand—can go forward.

The problem is that Project Orbis is in a very tight financial condition at this time and requires funds if it is to continue to be operational. It had been the intent of AID and Project Orbis, and I believe this committee, that the grant that was made in 1979 for Project Orbis be a one-time grant.

That organization did successfully meet its fund-raising goals that it had established earlier. But the cost of converting the aircraft and the cost of initial startup and operations exceeded all the earlier estimates. Basically, we are providing assistance so that they will have an opportunity to step up their fund-raising program and get themselves to the position where they will be able to carry out their operations from private contributions.

Senator KASTEN. To be more self-sufficient.

Mr. SANTOS. Yes.

Senator KASTEN. You said that you had requests for $70 million from 56 institutions. How much of this is for new organizations not previously funded by ASHA, and how much is it? Maybe you can provide that for the record specifically.

Mr. SANTOS. I would have to provide that for the record. I might make a note, however, which really does not quite answer your question of new projects over the past 5 years. Since fiscal year 1978 we have assisted 25 institutions in developing countries that had not previously received assistance from the ASHA program.

Senator KASTEN. Since when?

Mr. SANTOS. Since fiscal 1978, and that totaled $27.3 million.

Senator KASTEN. Is your $70 million request from 56 institutions roughly the same as it has been in previous years, or are those costs down somewhat from previous years?

Mr. SANTOS. It is a little less than it was for this year and last but considerably more than the years previous to 1981. This year we had requests totaling over $85 million.

Senator KASTEN. In terms of institutional—I will just ask you to provide it for the record, I just want to get a sense of if we continue to fund the same ones or, if we were adding new ones, what kinds of institutions were funded.

[The information follows:]

## FY 1983 APPLICANTS NOT PREVIOUSLY FUNDED BY ASHA

Eighteen of the 56 applicants requesting assistance in Fiscal Year 1983 have not received prior assistance from the ASHA program. These eighteen applicants are requesting $13.9 million.

## NEW GRANT RECIPIENTS SINCE 1978

In the past 5 years, the period FYs 1978 through 1982, 30 institutions which had not previously received ASHA assistance were successful competitors and have been awarded grants totalling $31.7 million. The institutions and the total of the grants are set forth below. This $31.7 million is 28% of the $113.75 million appropriated for the ASHA program during this 5 year period.

| Institutions | First Year of Funding | Funding To Date |
|---|---|---|
| Botswana - Kanye Hospital | 1979 | $1,900,000 |
| Maru a Pula School | 1979 | 195,000 |
| Brazil (NE) - Esperanca | 1979 | 1,240,000 |
| Haiti - Adventist Hospital | 1979 | 635,000 |
| Hospital St. Croix | 1982 | 150,000 |
| India - Ludhiana Medical Center | 1979 | 500,000 |
| Vellore Medical Center | 1982 | 500,000 |
| Indonesia - Bandung Hospital | 1978 | 300,000 |
| Satya Wacana University | 1979 | 650,000 |
| Israel - Beth Zeiroth Mizrachi Vocational School | 1978 | 500,000 |
| Gan Yavne Youth Village | 1978 | 975,000 |
| Ohr Somayach School | 1979 | 1,150,000 |
| Jerusalem Academy | 1982 | 1,000,000 |
| Boys Town Jerusalem | 1982 | 800,000 |
| Jordan - American Center for Oriental Research | 1982 | 200,000 |
| Korea - Yonsei University | 1978 | 1,000,000 |
| Soong Jun University | 1980 | 1,300,000 |
| Lebanon - Beirut University College | 1981 | 375,000 |
| Liberia - Cuttington University College | 1979 | 3,450,000 |
| Malawi - Malamulo Hospital | 1979 | 1,700,000 |
| Philippines - De La Salle University | 1979 | 1,200,000 |
| Trinity College | 1980 | 900,000 |
| Xavier University | 1980 | 1,550,000 |
| Ateneo de Davao University | 1982 | 940,000 |

| Institutions (Cont'd) | First Year of Funding | Funding To Date |
|---|---|---|
| Rwanda - Mugonero Hospital | 1980 | $ 750,000 |
| Tanzania - Heri Hospital | 1980 | 275,000 |
| Thailand - Payap College | 1978 | 3,265,000 |
| West Bank - Mount of David Crippled Children's Hospital | 1979 | 2,250,000 |
| Worldwide - Project ORBIS | 1979 | 1,784,000 |
| Zambia - Mwami Hospital | 1981 | 300,000 |
| | TOTAL | $31,734,000 |

In addition to the above institutions, it should be noted that two institutions in Central America which received only small amounts of assistance prior to FY 1978, have since then received larger grants to expand their facilities and enrollment and the quality of their programs. These institutions are the University of the Valley of Guatemala, which has been granted $3.68 million since FY 1978, and the Panamerican Agricultural School (Escuela Agricola Panamericana) in Honduras which has received $3.75 million. These institutions have been strong competitors in recent years and both have requested assistance in FY 1983 to help continue their development programs.

## AMERICAN UNIVERSITY OF BEIRUT

Senator **KASTEN**. What is the current situation of the University of Beirut, given the crisis in Lebanon?

Mr. **SANTOS**. The university has not been harmed physically. It is presently receiving casualties at a fairly fast rate. In the first few days they did not have many casualties, undoubtedly because they were behind the advancing Israeli lines.

They have had over 500 casualties since just the end of last week, 44 of whom were dead on arrival; 354 of whom have been treated and released, and the remaining are still at the hospital.

The hospital is operating with only 40 percent of its usual work force. The people are working around the clock, and some of the students and medical students who were still at the school are working with the Red Cross and Red Crescent to provide every assistance they can.

Senator **KASTEN**. When you say casualties, these are not casualties in the university or from the university community, these are people that are coming in?

Mr. **SANTOS**. People coming to the university.

Senator **KASTEN**. Coming to the university hospital to get assistance?

Mr. **SANTOS**. That is correct.

There have been no casualties among the staff there. I understand that there are approximately 100 American faculty and staff and their families who are still there.

Senator **KASTEN**. And the building is intact?

Mr. **SANTOS**. None of the physical facilities have been damaged.

Senator **KASTEN**. Are there any PLO that are holed up there, that are hiding there? We are getting rumors back and forth on this.

Mr. **SANTOS**. Yes. We understand that there are 50 members of the PLO, guerrillas with light weapons, who have taken refuge on the campus and who have refused to leave.

Senator **KASTEN**. They have essentially sealed themselves off in a section there.

Mr. **SANTOS**. I do not know any more specifics than that.

Senator **KASTEN**. Now, the university for the second year in a row, I understand, is receiving assistance from the ESF account. Now, maybe this is the direction to go in the future and to eliminate the ASHA program altogether by providing a select group of universities, American schools and hospitals, with ESF support rather than with ASHA support.

What do you think of this approach and why, first of all, we are going in this direction with the American University in Beirut? And if we keep going in that direction, what is the purpose of the overall ASHA account?

Mr. **SANTOS**. The reason it is being done for the American University in Beirut is in recognition of the fact that the university is operating in an area that even before the events of this past week, had poor security, and that additional assistance of that kind was appropriate.

Now the basic reality, of course, is that the American University in Beirut's budget has doubled in the past 5 years and tripled since 1971.

Senator KASTEN. Has tripled since 1971?

Mr. SANTOS. Yes.

Senator KASTEN. That is our participation, or overall?

Mr. SANTOS. No, their overall budget is now at $58 million a year. So, you can see in terms of our budget and the worldwide applicants that we have, that we really are a relatively small component.

Our contribution this year amounts to about 7 percent of their overall operating budget, 9.5 percent if you include ASHA money and the ESF money.

Senator KASTEN. The total.

Mr. SANTOS. And that is down appreciably from the middle 1970s when our contribution to that institution amounted to almost one-third of their budget.

Senator KASTEN. But the dollar amounts have not gone down.

Mr. SANTOS. Yes: the dollar amounts have gone down.

Senator KASTEN. They have gone down? ASHA plus ESF is less than ASHA was 3 or 4 years ago?

Mr. SANTOS. Well, ASHA plus ESF this year will be $5.5 million, and that is less than in the middle 1970s when it was $6 million from ASHA alone.

### PROTECT EVALUATION

Senator KASTEN. In last year's testimony we talked about the evaluations that you did on the projects that were funded, and at that time you indicated that at times you did travel overseas to inspect and evaluate a number of the different projects.

What projects have you evaluated in the last year?

Mr. SANTOS. We have a number of projects in the Far East that will be evaluated just within the next month by our engineer. These are all construction projects, primarily all the projects that we are funding now in the Far East and South Asia.

Senator KASTEN. What projects have you evaluated in the last year?

Mr. SANTOS. In the last year with onsite reviews?

Senator KASTEN. Onsite reviews would be one category we would be interested in. And have you yourself gone and traveled overseas to inspect and evaluate some of these projects, and have others?

Mr. SANTOS. Within the year we reviewed Esperanca's Project in the Central Amazon Valley, that is a medical project providing primarily primary health care. Also, the Adventist Hospital in Haiti and the Working Boys Center, a vocational school in Ecuador.

Senator KASTEN. And these were onsite inspections by you?

Mr. SANTOS. By a member of our staff.

Senator KASTEN. Or by your engineer.

Mr. SANTOS. Yes.

Senator KASTEN. Do you have written reports on these evaluations?

Mr. SANTOS. Yes.

Senator KASTEN. Could you provide them to the subcommittee?

Mr. SANTOS. Yes. I would like to point out that these visits were made last of all, in the current fiscal years. In fiscal year 1981, visits were made to 47 institutions in 15 countries; both ASHA grant recipients and new applicants.

Senator KASTEN. Also last year we talked about the American Hospital in Rome, and how it was not identified as an American hospital. Have we made any progress there, has that situation changed?

Mr. SANTOS. They have stated that they were going to put up the appropriate plaques at the hospital. We have not confirmed that that has been done, but we can do that.

Senator KASTEN. I would appreciate if you could. It is a minor point, but we have the same problem with other kinds of aid. In Cyprus there are a couple of examples and there are some in other places—not in your particular category of projects—in which there are substantial amounts of American aid and for one reason or another they are not identified as such. I think it is important that if we can do so, we do so.

There may be some additional questions from members of the subcommittee, and we have a couple of questions here that will be submitted for the record, in addition to that breakdown for 1983. But we will get back to you with those questions.

I would like to thank you for your testimony and say that we have enjoyed working with you during the past year, and I think we can continue to make progress in the coming year.

But I would also hope that at one point we can begin to be more realistic about the appropriation requests on this because we really are playing with mirrors and paper clips, a game of charade.

It is pretty clear what is going to happen, we might as well be honest. To the degree we can do that, it would just make the appropriations process that much more meaningful and the requests coming from the administration that much more legitimate.

But thank you for your testimony, and I look forward to working with you.

Mr. SANTOS. Thank you. I appreciate your comments, and I agree.

Senator KASTEN. That concludes today's hearing. The hearing record will remain open for 2 weeks during which time members of the subcommittee may wish to submit questions in writing to the witnesses. The committee would hope that you would answer these questions within 2 weeks of receipt.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR KASTEN

### AGROCLIMATE ANALYSIS AND DROUGHT EARLY WARNING SYSTEM

Senator Kasten: Your statement indicates you are involved in "agroclimate and drought impact analysis" in connection with the Food and Agriculture Organization (FAO).

Mr. Howell: We are cooperating with the FAO by providing bi-weekly "Climate Impact Assessments for Foreign Countries" prepared operationally by the National Oceanic and Atmospheric Administration's Center for Environmental Assessment Services.

Senator Kasten: Isn't this activity more properly funded under other accounts -- for example in the case of drought impact analysis, I believe the Sahel Development Program has funded studies along this line, in cooperation with FAO -- are we simply giving them the money?

Mr. Howell: Mr. Chairman, the drought impact assessment activity is global in scope and addresses a chronic type of disaster that requires continual operational surveillance. This global disaster early warning system is therefore properly funded and coordinated by the Office of U. S. Foreign Disaster Assistance (OFDA) under Section 491 of the Foreign Assistance Act of 1961 as amended. In addition, the Office of U. S. Foreign Disaster Assistance has not funded FAO in any way with respect to agroclimate and drought impact analysis. We have, however, continued to foster a close cooperative working relationship between the FAO and NOAA. We have concentrated on the development of quantitative weather and crop assessment techniques for the less developed countries (LDC's) using weather satellites, computer modelling of historical weather and agricultural data, innovative statistical analyses and an operational reporting system for early warning of potential food shortages in the Caribbean Basin, Africa, Indian Subcontinent and Southeast Asia. To my knowledge no other U.S. agency (except NOAA with OFDA support), organization, or AID program is currently conducting this kind of drought monitoring activity throughout the developing world. The Sahel Development Program to which I believe you refer, is entitled, "Sahel Water Data Network and Management". This AID project is being conducted by NOAA's National Weather Service and can provide daily rainfall ground truth data throughout the Sahel region to users of the World Meteorological Organization's Global Telecommunications System. This activity complements the NOAA work supported by OFDA but does not currently provide routine early warning of potential foodcrop shortfalls which could lead to famine conditions.

### INTERNATIONAL DISASTER ASSISTANCE ACCOUNT CARRY OVER AUTHORITY

Senator Kasten: Besides the $8.3 million, did you have a carry over from Fiscal Year 1981 which is still available?

Mr. Howell: No, Mr. Chairman, AID's International Disaster Assistance account has not had carry over authority since 1979.

## EL SALVADOR EMERGENCY ASSISTANCE

Senator Kasten: Your statement indicates that of the $12 million for emergency relief and rehabilitation, $8.3 million has been drawn down as of June 10th. Does this figure include the $3 million you have recommended for El Salvador development assistance programs?

Mr. Howell: Mr. Chairman, $3 million has been obligated from the International Disaster Assistance account for relief to El Salvador as a result of civil strife. The $3 million Grant Agreement for Project Number 519-0281 titled "Emergency Program: Health and Jobs for Displaced Families" was signed by the United States and the Government of El Salvador on May 12, 1982. This program is divided into two parts: $1.8 million for health related activities and $1.2 million for work projects.

Senator Kasten: With respect to the El Salvador program, are you going to be reimbursed from the regular development assistance accounts? If not, why not?

Mr. Howell: No, Mr. Chairman, we do not anticipate reimbursement from the regular development assistance accounts unless there is a supplemental appropriation for El Salvador. We believe the emergency program we have established in El Salvador is a disaster relief and rehabilitation activity rather than a development assistance program, and is therefore properly funded from the International Disaster Assistance account in direct response to the critical needs of displaced persons resulting from civil strife.

## SOUTHERN ITALY EARTHQUAKE RECONSTRUCTION PROGRAM

Senator D'Amato: $2 million was set aside for AID's matching grant PVO (Private Voluntary Organizations) program from the $10 million appropriated for the Southern Italy Program in FY 1982. Have those funds been programmed as yet?

Mr. Howell: Those funds have been programmed by AID's Near East Bureau for a grant to Catholic Relief Services (CRS) to defray 50 percent of the estimated cost of five separate projects as follows:

a. A 25-unit apartment building in Naples to provide permanent housing for families left homeless by the earthquake. (AID's contribution is being matched in part by the New Haven Group and in part by CRS).

b. Construction of a building trades training school in Avellino (Matching funds being provided by the Massachusetts Governor's Fund and CRS).

c. Reconstruction of St. Theresa's Orphanage in Solofra. When rebuilt the facility will be able to provide housing and care for 100 orphans and staff. (Matching funds provided by the Sons of Italy).

d. Construction of an Institute for the aged in Solofra. The institute will provide housing for some elderly residents and provide recreational medical and therapeutic services for a larger number of senior citizens of the community. (Matching funds provided by Sons of Italy).

e. Construction of fifty pre-fabricated houses in Montella. This community was heavily damaged by the earthquake which left nine dead and over one-third the population homeless.

All matching grant projects are coordinated with the Italian Disaster Earthquake Assistance (IDEA) National. Under the chairmanship of Amb. John Volpe, IDEA has established a projects review committee to screen all matching grant proposals. I might add that this $2 million has permitted AID to extend the matching grant program for another year.

Senator D'Amato: Could you tell me the benefit to be gained from extending the matching grant program.

Mr. Howell: The matching grant program has been a successful example of the use of public funds to provide an incentive for effective private action in earthquake reconstruction in Southern Italy. The Near East Bureau believes there continues to be an opportunity to raise additional private funds, and by extending the deadline for matching grants we hope to provide the incentive for the private sector to do so.

Senator D'Amato: What are AID's plans for the balance of the $10 million appropriated for FY 1982?

Mr. Howell: Of the $8 million remaining (in addition to the $2 million matching grants) AID plans to provide $4 million to four PVOs for Operational Program Grants ("OPGs").

The grants would be contingent upon the submission of acceptable grant applications. Some of the activities which may be eligible for grants are:

a. Save the Children Foundation:
   Community Centers

b. Red Cross:
   (1) Centers for the handicapped,
   (2) Dispensaries or (3) reconstruction of a hospital wing

c. Salvation Army:
   Dairy Products Cooperative

d. Catholic Relief Service (CRS):
   CRS has a number of proposed projects in an amount of $4 million.

Plans for the remaining $4 million are now under discussion with Near East Bureau field staff.

## DISASTER STOCKPILES

Senator Kasten: Where are your stockpiles located which will be used to assist disaster victims?

Mr. Howell: Mr. Chairman, the Office of U. S. Foreign Disaster Assistance has stockpiles located in Leghorn, Italy, Panama, Singapore, and Guam.

## QUESTIONS SUBMITTED BY SENATOR INOUYE

### REIMBURSEMENT OF TDP FINANCING

Senator Inouye: Mr. Hardy, you have stated that, "the countries requesting TDP services often have substantial foreign exchange or access to international public and private lending sources to finance their development." Should these countries be required to reimburse the Trade and Development Program for its services?

John Hardy: No, Senator, a requirement that the countries utilizing TDP financing for project planning services reimburse TDP for such financing would undermine a significant objective of the Program, i.e., to promote development and facilitate the use of U.S. goods and services in major development projects. We seek to achieve that objective by using modest sums of money to get U.S. firms involved in the project while it is still in the planning and design stage. Since our export competitors are trying to do precisely the same thing for their export industries, it is fundamental to the attainment of TDP's objective that we be able to offer financing on approximately the same terms that our competitors do. For TDP to require reimbursement by the countries in which we are seeking to involve U.S. firms in projects would transform our present grants into loans and render TDP non-competitive vis-a-vis our export competitors.

### TYPES OF TDP FINANCING

Senator Inouye: Are all TDP services provided on a grant basis?

John Hardy: TDP provides grant financing of planning services for development projects which are host government sponsored and, therefore, involve the possibility of U.S. exports (goods and services) in project implementation. For projects in which a private (U.S. or foreign) investor is seeking TDP financing for planning services, any TDP participation is conditional on cost-sharing with the investor and/or reimbursement. In such investor projects the investor will be required to pay a portion of the cost of the feasibility study or other planning service and is also required to fully reimburse TDP if the study concludes that the project is viable and the investor subsequently goes forward with the project.

### TDP ACTIVITIES IN COUNTRIES NOT ELIGIBLE FOR AID ASSISTANCE

Senator Inouye: How do you justify the provision of grant assistance to countries which are not eligible for other AID concessional assistance programs?

John Hardy: By statute, TDP is encouraged to provide assistance to programs which are not eligible for other AID concessional assistance programs. As explained previously, we justify TDP grant assistance to non-AID countries as the most effective way to meet our dual objectives of facilitating trade and development.

## MANDATE OF TDP

Senator Inouye: Do you regard the Trade and Development Program as an economic development program assisting LDCs or, primarily, as a program for the development of U.S. trade?

John Hardy: TDP has a mandate, unique in the U.S. Government, to be both an economic development program and one which promotes U.S. trade. It is only because it has such a dual mandate that it can support the development priorities and projects of the middle income developing countries while assisting U.S. businesses to compete with our export competitors for use of U.S. technologies, goods and services in these projects. It has been our conclusion that the host countries approve of the national self-interest inherent in TDP's use of funds to support development projects which may result in exports from the United States.

## ORGANIZATIONAL PLACEMENT OF TDP

Senator Inouye: Why is the TDP program located in AID? Is it not more suited to the activities of the Department of Commerce?

John Hardy: TDP is not located in AID but in the International Development Cooperation Agency. The TDP Director reports to Peter McPherson in his capacity as the Acting IDCA Director. TDP is not suited to the activities of the Department of Commerce because of the existence of our development mandate. It is precisely because of this dual mandate, i.e., that TDP is promoting trade in areas of high developmental and national importance to a country, that TDP has been received overseas so enthusiastically. If TDP were to be located where that dual mandate could not be retained the effectiveness of this program would necessarily be compromised.

## U.S. BUSINESS GENERATED BY TDP

Senator Kasten: Mr. Hardy, do you have any way of measuring the U.S. business which is generated by TDP activities?

If so, what has that been over the last year or two?

Mr. Hardy: TDP does periodic follow up on each project on a case-by-case basis to learn from the U.S. companies involved what follow-on business was generated by the project and to try to determine what future business, relating to the project, is being negotiated.

-- A partial list of U.S. business which has been generated by TDP activities over the last year or so is to be found in the body of my testimony of June 15. Other instances of follow-on contracts generated by TDP activities are to be found in TDP's 1982 Congressional Presentation.

-- A recent trip to Asia was made by Christian Holmes, Director, TDP, which, among other purposes, was to determine the additional exports which TDP grants have generated or are expected to generate. As a result of Mr. Holmes trip, TDP concluded its first grant agreement with the People's Republic of China, wherein TDP will provide US$400,000 to conduct a feasibility study on the Tienshengqiao Hydroelectric facility; this grant could result in up to US$300 million in exports from the United States.

-- A TDP grant of US$300,000 to the Government of the Philippines' National Steel Corporation for modernization of the Iligan Steel Mill resulted in U.S. Steel Engineers and Consultants receiving follow-on contracts from the GOP of US$6.8 million and a possible contract for project management of between US$10-15 million.

-- TDP has funded three separate studies for the Electricity Generating Authority of Thailand (EGAT); 1) a US$334,000 high voltage transmission line study done by LEMCO has resulted in US$1.7 million in follow-on work preparing specifications, 2) a US$450,000 lignite exploration study done by DRAVO has resulted in a US$450,000 country-wide follow-on study, and 3) a US$150,000 prefeasibility study for a coal fired thermal plant has resulted in US$200,000 in follow-on work for BURNS AND ROE. Additional exports of both services and equipment are expected from all of the above studies.

-- In addition, a $35,000 TDP-financed potash study in Thailand in FY 1980 has resulted in three U.S. companies now being in the final stages of making investments in Thailand; DUVAL CORPORATION, AGRICO and AMAX EXPLORATION. The U.S. exports from the three projects are projected to be approximately $1.5 million.

-- TDP's projects with local investors appear to be a very promising way of assisting both the local and U.S. private sector; for example, in Indonesia, TDP and a local investor cost-shared a feasibility study ($225,000, TDP; $75,000, investor) for the construction of a cement plant. The study has been conducted by two American firms, BLACK AND VEATCH and ALLIS CHALMERS. The study proved positive and appropriate financing is being sought. Should financing be secured in the United States, ALLIS CHALMERS stands to provide approximately US$90 million in goods and services.

## AMERICAN UNIVERSITY OF BEIRUT

Senator Inouye: What report can you give the Committee on present conditions at the American University of Beirut?

Mr. Santos: The fighting in Lebanon began just as the second semester ended. The summer school has been postponed. If it cannot be rescheduled to begin by August 2, the University estimates lost revenues of approximately $865,000. The only parts of the University presently operating are the medical education program and the American University Hospital, which is on an emergency basis. As of July 15, 1,851 casualties had been taken to the American University Hospital including those dead on arrival, those admitted and those provided emergency and out-patient care.

Senator Inouye: Have any of the University's facilities been damaged in the recent conflict? How extensive has the damage been?

Mr. Santos: As of July 15, four shells had fallen on the campus breaking windows and damaging the Dean's residence. There were no casualties. The University's estimate of the damage is approximately $70,000.

Senator Inouye: How will the conflict in Lebanon affect the ASHA program for the American University of Beirut?

Mr. Santos: At this point, it is too early to say. However, American University Hospital officials are estimating an increased deficit of $1.4 to $1.7 million each month the fighting continues. The University's expenses for 1981-82, including the hospital, were estimated at $58 million prior to the conflict. A.I.D.'s FY 1982 contribution to these operating expenses is $5.5 million, $4 million from the ASHA account and $1.5 million from the ESF account. The $4 million has already been expended and the $1.5 million will be disbursed in mid-July.

## GRANTEE MANAGEMENT AND FISCAL ACCOUNTABILITY

Senator Inouye: As the ASHA program has moved to achieve a broader geographic distribution, it has responded to requests for assistance from institutions in the more impoverished countries.

What effect has this had on management and accountability? Has the ASHA program encountered any difficulty in maintaining a high standard of fiscal accountability? Do you provide technical assistance to institutions to help them develop management capabilities?

Mr. Santos: There has been no difficulty in maintaining high standards of fiscal accountability for ASHA-assisted projects in poorer countries. One reason is that U.S. citizens or U.S. trained personnel familiar with U.S. accounting practices are involved in handling grant funds. Another is that applicants are required to demonstrate their management capabilities in their applications and one of the criteria used to rank applicants addresses this point. This permits deficiencies to be addressed before difficulties arise. For example, in two instances we concluded that the grantees' administrative staffs were too lean to adequately manage the institutional development programs being undertaken. In both cases, the grantees responded by reassigning or hiring appropriate personnel to ensure smooth program management and fiscal accountability. In addition, it should be noted that grant funds are disbursed on the basis of project progress which is closely monitored by the ASHA office. Grantee requests for progress payments are approved by the ASHA office prior to disbursement by the A.I.D. Controller and the Treasury.

## ASHA PROGRAM CRITERIA

Senator Inouye: ASHA program criteria for grant applicants were first published in November 1979.

Please identify those institutions which received ASHA assistance prior to the introduction of these criteria, but which are no longer eligible for the ASHA program.

How have these institutions fared? Have any been forced to close down because they can no longer receive ASHA funding?

Mr. Santos: I know of only two prior grant recipients which are clearly not eligible to be considered for ASHA assistance. In both instances U.S. sponsorship ceased and the nature of the institutions changed. One is the Damavand College in Iran, which lost its independence as a private U.S.-sponsored institution as a result of the revolution in that country. The second is the American Center for Children in Italy, which was unable to structure itself as planned after assistance was granted in FY 1977. No funds were expended and the full amount of the grant for the Center has been deobligated and returned to the Treasury.

It should be noted that since the criteria were adopted a number of prior recipients that have sought assistance were eligible for consideration but were not in a sufficiently strong competitive position to receive a grant. Moreover, a number of institutions that have been successful in obtaining grants one year were not competitively successful in another given the fact that the pool of applicants changes and the competition differs from year to year. Most applicants, both successful and unsuccessful, have had to increase fees and private contributions to meet increasing operating costs. Similarly, improvement and expansion programs have sometimes been dropped, reduced in scope or postponed. However, we are not aware of any ASHA applicant being forced to close because it did not receive a grant.

## SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee now stands in recess until June 29.

[Whereupon, at 3:35 p.m. Tuesday, June 15, the subcommittee was recessed to reconvene at the call of the Chair.]

# FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1983

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THURSDAY, JULY 15, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, D.C.*

The subcommittee met at 2:05 p.m., in room 1114, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Inouye, Johnston, Leahy, and DeConcini.

## ASSISTANCE FOR EL SALVADOR

## CONGRESSIONAL WITNESS

### SUBCOMMITTEE PROCEDURE

Senator KASTEN. The subcommittee will come to order.

This afternoon the Foreign Operations Subcommittee will have a special hearing on the administration's fiscal 1983 foreign assistance request for El Salvador, together with an overall review of U.S. policy toward El Salvador.

The witnesses for our hearing will be Senator Chris Dodd, Dr. William LeoGrande of American University, and Assistant Secretary of State Thomas Enders.

El Salvador has been the focus of close scrutiny and the subject of sharp debate in Congress since early 1980. This hearing will continue our subcommittee's examination of developments in El Salvador, and with previous hearings held in March and April on aspects of these issues and these challenges. It is my hope that this additional hearing will help to improve the level of our debate on this subject.

The United States stands firmly opposed to communism throughout the world, especially in the Western Hemisphere. The United States is firm in its support of democracy as the best and the most effective alternative to communism. Terrorism in the name of any cause is diametrically opposed to everything we believe in.

The basic elements of democracy are political opportunity and economic opportunity. The preconditions for these two pillars of strength are physical security and freedom from terror. These are fundamental precepts that we must keep in mind at all times when we in the Congress debate the close relationship between the United States and El

Salvador and the details of the AID programs that are such an integral part of that relationship.

El Salvador is fighting to establish a democracy and both the administration and the Congress are trying to help. Many so-called experts say that El Salvador, and in some cases all Latin American countries, cannot sustain a real democracy. They say that democratic institutions in Latin American countries are only fronts for totalitarian communist governments and authoritarian repressive regimes.

These so-called experts would have the United States lose sight of our basic principles. They would have us pick sides in every struggle in Latin America. They would have us intervene and impose an American solution to internal political debates that we really don't understand.

Too often in the glare of television lights and in anticipation of 10 point headlines we lose sight of our national objectives and the way the United States is perceived in Latin America. We become too closely identified with one side or the other in internal struggles in Latin American countries, and we lose the opportunity to demonstrate our fundamental belief that democracy itself is the best and the most effective alternative to communism.

El Salvador had a critical election on March 28 conducted in the glare of worldwide attention. I congratulate the people of that small nation on this magnificent event, and I categorically reject the criticisms of the losers and the nonparticipants in that election and their sympathizers. These wholly predictable comments fly in the face of opinion of hundreds of international observers, including a very distinguished Member of our U.S. Senate.

Nonetheless, I think it is important to remind our colleagues and our friends in El Salvador that a democratic election which has won the approval of our Nation will quickly lose that approval if it is used as an excuse for oppression by the victorious. The new government must assure all Salvadorans of continued political and economic opportunity. At the same, I must express to the Members of this body my strong belief that the United States must honor the results of the democratic process exemplified in the Salvadoran elections.

Just as we demand that every nation respect the preferences of our electorate regardless of which political party prevails, we owe no less an obligation to the citizens of El Salvador, regardless of our personal political beliefs.

Thus, as a concerned friend and neighbor, as a beneficiary of democracy, we can offer El Salvador in its war against communism the following:

First, and most important, our strongest possible endorsement of political freedom, which we must support even when the political choices made in a free election may not be to our personal liking.

Second, an economic aid program that is responsive both to the needs for stability in the economy as a whole and for the fundamental requirement to provide basic economic opportunity for the vast majority of the Salvadoran people.

Third, the military assistance and training necessary to protect the Salvadoran people against communist guerrillas and the guidance and the persistence to pursue and eliminate terrorism and repression from all sides.

These are the fundamentals for success in that struggling country, and for that matter throughout the world. I remain as one Senator, and I know there are many who join me who are committed to continue to provide these fundamentals for success.

Before beginning this afternoon's testimony, Senator Inouye, do you have any statement that you would like to make at this point?

Senator INOUYE. No.

Senator KASTEN. Senator Leahy?

Senator LEAHY. I do.

Senator KASTEN. Senator Leahy.

### STATEMENT OF SENATOR LEAHY

Senator LEAHY. Mr. Chairman, I appreciate your remarks, and I am delighted we will now have a hearing on military and economic aid to El Salvador. I think it is extremely important, and I compliment you for calling one.

Two years ago when this subcommittee was first considering increased military and economic aid to El Salvador then Archbishop Oscar Romero warned that "The contribution of the United States, instead of promoting greater justice and peace in El Salvador, will without doubt sharpen the injustice and repression against the organizations of the people which repeatedly have been struggling to gain respect for their most fundamental human rights."

Since Archbishop Romaro wrote this warning, events have tragically proven him correct, brutalities, tortures, sexual abuses, beheadings and deaths have gone on and on and on, numbing us into acceptance of these events as a unique part of Salvadoran life. The economic condition worsens, the reforms are put off, the war goes on, and El Salvador is now guided by a man who has been linked to so many of these deaths, including, by some, to the death of the archbishop himself.

Now this subcommittee is facing a request from the administration for more than $350 million in additional assistance to El Salvador. I must agree with my distinguished chairman that at a time when domestic programs are being reduced, an increase in foreign aid is hard to swallow. To paraphrase Senator Kasten, how can I tell my Vermont constituents that we have to ship more dollars to El Salvador and Vermont must do with less? And more importantly, how can I justify this flow of funds when our policy appears to be in such disarray?

There were reports last month that millions of dollars of AID funds have been unaccounted for in the land reform program, improperly spent or just simply stolen. AID apparently has given out a lot of money in cash which ended up in the pockets of high-ranking Government officials according to those reports. If this is the way the AID is running our Salvadoran activities, then I don't think anyone on this subcommittee, Republican or Democrat, would support increased funds.

We are here today to review where we are in El Salvador. Recent international events have turned our attention away from the continuing crisis there, but clearly the problems do remain. Frankly, I am still trying to figure out just what the United States' policy is. We all seem to agree that El Salvador is a desperately poor nation with a troubled past of military governments and economic control by a limited number of very powerful families.

I thought we all agreed that the only way to lasting peace and stability was through reform and open political participation. Now it is true that elections were held, and we are all supportive of the democratic progress in its infancy in El Salvador, but certain conditions do continue.

The war continues. The New York Times reported on Sunday, June 27, that it will take 2 more years to defeat the guerrillas. Land distribution continues to be a problem, yet the government seems to lack a commitment to this or any economic reform. Some have argued that a coalition of the right-wing parties is working to halt all reform and place Salvador firmly back in its feudal traditions.

Now the brutalities continue. Four christian democratic mayors have been killed since the election, innocent civilians—women and children—continue to be killed and raped and tortured. Finally the murderers of the four American churchwomen and other U.S. citizens have still not been brought to trial. I find that fact alone incomprehensible and inexcusable.

I hope that this hearing will help the Members of this subcommittee to assess the merit of current U.S. policy, as well as the financial and political commitment that the administration has in mind, not just now, but for years to come.

Thank you, Mr. Chairman.

Senator Kasten. Thank you, Senator Leahy.

We have a vote on, and I would like to inform Members of the subcommittee and members of the audience that there are two back-to-back votes. It was my intention to ask Senator Dodd to speak first.

Senator Dodd, why don't you come forward and present your prepared statement, and then we will go and vote. Can you do that in 7 minutes? It is up to you, whatever is easiest for you. Would you prefer to recess now and come back?

We are happy to have Senator Chris Dodd with us today. He is a member of the Foreign Relations Committee and has had an interest in this subject. It is my intention to have Senator Dodd and Dr. LeoGrande present their testimony and then for the subcommittee to question them.

Senator Dodd, if you could begin your testimony. It is good to have you here with us today.

## STATEMENT OF HON. CHRISTOPHER J. DODD, U.S. SENATOR FROM CONNECTICUT

Senator Dodd. Thank you very much, Mr. Chairman.

Let me commend you and the members of the subcommittee for holding these hearings. As was pointed out by Senator Leahy, with other events in the world overshadowing events in our own hemisphere, this hearing, unfortunately, doesn't have the sense of urgency it should.

I think you are to be credited for holding this hearing to bring the subcommittee, the full committee, and the Senate as a whole up to date on exactly where we are, what has transpired over the last several years, and what the likelihood for success is as we look down the road in El Salvador.

Even though there are other events in the world that overshadow this particular sad story, the story is not going to disappear. It is not on the front pages of our newspapers or the top story on the nightly news, but it is very much alive and the tragedy continues.

I certainly want to thank you for giving me an opportunity to be here with you. There are obviously, and you will sense them today, some different perspectives on the issue of El Salvador. I hope this hearing will illustrate our mutual concern over this issue and that recent events in El Salvador and in Central America as a whole are certainly of vital interest to us all.

One year ago most Americans, couldn't tell you where El Salvador was located. In fact, I suspect the majority of our colleagues in the Senate probably couldn't have pinpointed El Salvador on a map. Today U.S. policy toward this Massachusetts-sized country has revived bitter memories and stoked an emotional debate.

Today there are new slogans and demonstraters who are far too young to remember the lessons many of us thought we had learned in the jungles of Southeast Asia only a decade ago. Today El Salvador remains a steaming cauldron, alternately boiling over and simmering down, but never, never cooling off entirely.

Not much has changed in 50 years. El Salvador's bloody past of political corruption and repression has stained its present and is threatening its future. Our historic inability to address effectively these violent traditions has helped insure their continuation. It seems the only thing that is new is the American public's growing awareness of El Salvador's significance, an important lesson that we painfully learned.

Given El Salvador's geographical proximity to the United States, if nothing else, it is of necessity politically important. By fully appreciating its significance, our basic fundamental interests in the region, economic, military, strategic or otherwise, are strengthened.

## U.S. ROLE IN CENTRAL AMERICA

The United States does have a role in Central America and in El Salvador. The question before us is whether we want that role to perpetuate past mistakes or to close the dangerous gap that has developed between our ideals and our endeavors. We have the opportunity, I believe, to answer unequivocably what our Central American neighbors have been asking for decades: Are we protecting our power and influence at their expense? Have we frequently sacrificed our ideals to insure the longevity of a Somoza, a Lucas Garcia or a General Romero?

Our words and our rhetoric suggest one thing, but the record and our actions, unfortunately, according to most Central Americans, suggest something quite the contrary.

I will argue very briefly, Mr. Chairman, that we can do both, that we can strengthen our security and advance the well-being of our neighbors at the very same time. These are not mutually exclusive goals.

The 1983 foreign aid legislation provides that opportunity. The 1982 legislation provided for that opportunity, as well. Many of us thought we had taken advantage of it. A congressional majority, we voted to place conditions on U.S. military assistance to El Salvador to support the junta only if it was making progress controlling human rights violations and continuing what everyone agreed were critical economic, social, and political reforms.

Last year, despite considerable evidence to the contrary, the Reagan administration informed us that the Salvadoran Government had made progress where I and others felt it had stalled. Congress' intended message to the Salvadorans contained in the certification requirement was lost in the administration's translation.

Now 6 months and millions of dollars later where are we? No closer to peace, the civil war still rages on. No more confident that human rights are being recognized, the blood-letting continues. And, certainly not reassured that economic and social reforms are continuing. The land reform, quite frankly, is comatose. Our multimillion dollar investment, enough to send tens of thousands of students to college, to cite one example, has not earned us much at all.

## LAND REFORM PROGRAM

With the 1983 foreign aid bill we have the opportunity I believe to insist on far better protections for our investment to at least insure that the land reform program has a future. If we don't, if the land reform program is killed, then no amount of money can save El Salvador or its people from a future marred by the violence that has plagued its past. The land reform program is the linchpin. It held together what support the Duarte government had, and it has the potential to keep the present government alive. Without that land reform it doesn't take a foreign policy specialist to tell you that El Salvador will be lost.

If we look back before the March 28 elections and the weeks immediately thereafter, the importance of the land reform effort and the seriousness of the threat presented by the D'Aubuisson-led constituent assembly becomes frighteningly clear.

The land reform program was enacted to diffuse support for the left, to convince the campesinos that the government, not the guerrillas represented them and their best hope for the future. In the Duarte government, most people believed strong commitment to land reform was there. They may have questioned whether or not land reform was working very well, but no one doubted that Jose Napoleon Duarte was committed to it. Just the opposite is the case under this new government. In a country where land means survival in the most primitive sense, less than 2 percent of the population controlled more than 50 percent of the arable land.

Roy Prosterman, a University of Washington law professor who helped design the land reform program, described it best. "Land reform," he said, "deprives the left of their most valuable weapon in implementing revolution because they can no longer appeal to the landless," he has been quoted as saying.

The program is not perfect. It is tough to make anything work in a civil war. It may be that it is a more important symbol than an effective, workable means, under the present situation, to bring about economic equity. But as long as it exists, as long as it moves forward, if even at a frustrating pace, that stability of the government is enhanced and the chances for peace improve.

We should not be surprised that the constituent assembly has blocked this progress. Its leader, Roberto D'Aubuisson has been violently opposed to economic and land reforms. While his campaign rhetoric was certainly less explosive than comments he had made earlier, it couldn't alter his record on the issue. We have to recognize that this man controls the political strings in El Salvador, not President Magana and not the moderate voices in the constituent assembly. That the first actions of the D'Aubuisson-led assembly were to abandon and suspend key portions of the land reform should vividly illustrate this point.

Senator KASTEN. Senator, I am afraid we are going to have to interrupt you at this point. We have about 4 minutes to go and vote.

Senator DODD. Let's go vote.

Senator KASTEN. We will recess the hearing at this time.

[A brief recess was taken.]

Senator KASTEN. The subcommittee will come to order.

Senator Dodd, if you would like to conclude your statement.

Senator DODD. Thank you very much, Mr. Chairman.

At the time the vote occurred, I was discussing what had occurred in the constituent assembly right after the March 28 elections with regard to the land reform program.

Before going into the details of that, Mr. Chairman, with regard to land reform I mentioned just prior to our recess that no one has suggested that land reform was going to be an easy program under any set of circumstances in El Salvador. But I think it is worthwhile to note that there is a clear perception generated by the present government that was not generated by the Duarte government, and that is a sense that land reform is not an essential ingredient for political stability and economic equality in that country.

At any rate, the assembly did vote to abandon phase II of the land reform program which would have distributed farms larger than 247 acres, and subsequently to suspend phase III, the land-to-the-tiller law. No argument, Mr. Chairman, can convince me good reason existed to cripple, if not destroy, efforts that would have helped 85 percent or more than 200,000 of El Salvador's landless families. These two phases of the land reform effort would have distributed two-thirds or more of the land included in the original plan.

Instead, the constituent assembly has sparked a new assault on these families. Peasants are being evicted from their land—anywhere from

5,000 to 12,000 in the last 2 months alone. In the 22 months after enactment of the reform program estimates are that 2,000 families were evicted, which is a significant increase in evictions. Orders to refuse new land applications were rescinded only after strong U.S. pressure was brought to bear, and the effectiveness of this pressure in reversing the orders in the program's daily operation remains a serious question mark.

The statistics are grim enough. Behind them are the ill-housed, ill-fed and the illiterate peasants who are being victimized by landowners who feel the constituent assembly gave them that right. In Roy Prosterman's words, and for the benefit of my colleague from Louisiana, Roy Prosterman was one of the individuals responsible for designing the whole land reform program and was under a contract to do it, but quoting him, the government has been given "an invitation under Salvadoran conditions to an orgy of eviction and violence" against the campesinos. It is simply not enough to quote the fine print. There is a more painful reality behind the legislative doubletalk.

The fact is the constituent assembly's actions have added to the confusion and fear that has already paralyzed Salvadoran peasants. Before the land-to-the-tiller law was suspended, only 20 percent of its potential beneficiaries had applied for land titles. That wasn't because the other 80 percent weren't interested. Many didn't know they could apply. Others didn't know how to apply.

In fact, in early 1981 when Michael Hammer and Mark Perlman, two Americans attempting to provide assistance as advisors on the agrarian reform program, and Rodolfo Viera, the Salvadoran head of the agrarian reform program, were brutally murdered, that message was not lost on others who were thinking of applying for those titles. If the peasants were confused and frightened before the constituent assembly acted, imagine how they feel at this time.

This is the reality we must address and these are the problems the Foreign Relations Committee recognized by a strong bipartisan 12-to-0 vote accepting an amendment that I offered to the foreign assistance bill. This amendment only came after Chairman Percy's stern warning to cut off funding was ignored. By reducing U.S. security assistance to fiscal 1982 levels and by writing the Percy threat into law, I think our message is clear: The Salvadoran Government cannot count on the largesse of the United States to support repression.

I think it is important that we make it clear that we are not telling the constituent assembly what to do. They can do anything they want. That is their business. But I think we ought to make it clear that if they want to take 1,000 steps backward we don't have to follow them in that direction. We have turned logic on its head. We are suggesting somehow that by cutting off aid we are involving ourselves in their internal affairs, whereas if we do nothing we are not getting involved in their internal decisionmaking process. They can do what they will, but I don't think that we need to support them with our tax dollars.

### TOTAL EL SALVADOR FUNDING

The administration in 1983 would send El Salvador $226.2 billion. Add the 1982 regular and supplemental requests of approximately $315 million and we are talking about spending more than one-half billion dollars over 2 years.

To give you some sense of the amount of money we have spent in El Salvador the last few years, from fiscal year 1980 through fiscal year 1983 U.S. aid requests total some $789.1 million, or more than three times the total aid provided during the preceding three decades in El Salvador.

Military assistance, not including ESF funding, and sales for the period of fiscal 1980 through fiscal 1983 totaled $219 million, an amount which exceeds all military and economic assistance for the period of 1946 through 1979 in El Salvador.

### MILITARY ASSISTANCE TO EL SALVADOR

On the issue of military assistance to El Salvador there are documents I urge the committee to look at. First, the so-called Warner report, an unofficial assessment by the Department of Defense of El Salvador's military needs and requirements, prepared last winter. In addition, there is a recent GAO study called "Planning For U.S. Security Assistance to El Salvador." This study is based on the Warner report and was prepared at the request of Senator Zorinsky who serves as the ranking minority member of the Western Hemisphere Subcommittee of the Committee on Foreign Relations. That GAO study is dated July 14, 1982, and both documents are classified.

The administration says that more of the same will do it. It has dusted off the old worn-out plans that have tarnished our past. Let me add that these policies did not originate with the present administration. They go back over numerous administrations. My criticism is focused on this administration because it is setting policy now, but they are not dramatically changing what I consider to have been traditionally bad policies. They tell us that democracy is as much a function of M–16's and helicopter gunships as it is of respect for the wishes of people and the consent of the governed. Why? The question was answered more than a century ago: To protect our security interests and help the Salvadorans build a true democratic system.

But have we done that over the years? Have they done that? Have the old plans worked? I believe that the gap remains between what we say and what we do. The situation in El Salvador has improved very little. In fact, the country appears to be on the edge of a dangerous precipice, and we find ourselves threatened by the military trap we failed to avoid in Southest Asia.

The answer in El Salvador is not written in million-dollar figures or expensive military equipment. The problems of that country are first, foremost, and fundamentally political in nature. Our policy must recognize that fact.

The March 28 elections, as important as they were, did not end the civil war or protect the reforms. Salvadorans, in the words of Bob

Leiken of the Georgetown Center for Strategic Studies, voted "for peace without a peace party to vote for" on the 28th of March. What they got was a repressive right-wing coalition led by an individual whose record of violence and terrorism has barred his entry into the United States. He could not get a visa to come to the United States because of his known activities.

We face a critical choice: Do we sign a blank check, do we support the back-sliding, or do we continue to promote the reforms and changes that bring peace, not only for the good of the Salvadoran people, but also for our own self interests, which I contend are inextricably linked to a sound policy in this country.

Our sense of security and well-being in strict political terms requires that the Central American nations share with us certain basic values and see the world at least in the broad outline more or less as we do. Our policy must illustrate a firm commitment to our political traditions and values while allowing for a large measure of political pluralism and diversity. It must place an absolute premium on developing sound and lasting political relationships while fostering the desire to emulate the high political standards we have set for ourselves.

We can't force the square peg of an East-West mentality into the round hole of the Salvadoran conflict. Such a perspective confuses the cause and effect of instability in El Salvador and in Central America as a whole.

Salvadorans have not suddenly discovered communism. It is just the reverse, I would contend. Communism has caused the unrest, it has taken advantage of it, if for no other reason than we have permitted it to happen over the years. We are making the same error that the Soviets have made in Afghanistan. The administration's fears are not unlike the Soviet claim that the United States is behind the unrest and turmoil in Poland.

We recognize that in Poland and in Afghanistan, Soviet troops cannot extinguish the yearning for freedom, liberty and justice, that a political solution is required in those two countries. Yet we argue and support a military solution in El Salvador. A political solution, reached at the negotiating table, is urgently required. The Senate Foreign Relations Committee supports such negotiations and through its vote on the 1983 foreign aid bill it restated its strong position that military aid alone is not the answer.

At the heart of the U.S. debate on the Salvadoran crisis is a policy that has failed to keep pace with events, let alone get ahead of them. Regretably, our policy is seen as opposing change and supporting the status quo. In 1939 the poet W. H. Auden wrote:

> I and the public know
> What all schoolchildren learn
> Those to whom evil is done
> Do evil in return.

That simple verse, Mr. Chairman, articulately describes the cycle of violence and counterviolence that has characterized life in El Salvador, and that cycle, I contend, must be broken.

We have the opportunity to do that. The opportunity still exists. There are people in El Salvador who desperately want peace and are looking for a way out of the war that is ripping their country apart. To change perceptions and to change reality, that is our job, and to contribute not to the bloodshed and to the conflict but to those dedicated to the reforms that provide the best hope for peace. We can ill afford the price of losing this opportunity.

I thank the committee, and thank the chairman for the opportunity to appear before you.

Senator JOHNSTON [presiding]. Thank you very much, Senator Dodd, for an excellent statement. We appreciate your leadership in this particular issue.

### EL SALVADOR STATUS WITHOUT U.S. AID

If I may, I'll just ask a couple of questions.

First, in your judgment, can El Salvador survive without American aid, either military or economic?

Senator DODD. Well, they are going to need economic assistance. As I pointed out, we have poured in a tremendous amount, but obviously it is having less of an impact than it would were we providing economic assistance to a country at peace.

As far as the military assistance goes, the Salvadorans contend that they can get along without it. Statements have been made that they have other resources to go to. The other night on national public radio Major D'Aubuisson and another official of that government, were referring to us as the Soviet Union. They said they could go to either the Israelis or the Arabs, they would choose the latter for support militarily, and they didn't need the United States for military assistance. I will be glad to provide the committee with a transcript which I have acquired of that radio show, "All Things Considered."

Senator JOHNSTON. So your judgment would be that "Yes, they must have economic aid to survive," but "No, they probably do not need military aid to survive?"

Senator DODD. I would contend that they could probably get the resources elsewhere, but I would argue that there is not going to be a military solution. The general feeling is that this war will rage on and on and on. I would suspect that even if military assistance were not forthcoming from the United States, they would acquire it elsewhere.

Senator JOHNSTON. Now under your amendment, as I understand it, if they do anything to modify the land reform action, then automatically aid would be cut off.

Senator DODD. Well, no. The certification bill does not really have any teeth in it. Frankly, we don't have any legislative power to do that. That is really up to the executive branch. What was included in that legislation were certain goals, conditions, and I might add ones that were supported by President Duarte when he was in the United States. He met with the Foreign Relations Committee the day before the vote occurred in the full Senate last September. Those conditions say there must be progress in these areas, and the President must certify that there is progress in these areas or military aid would cease. So it is entirely up to the executive branch in effect.

Senator JOHNSTON. Well how about this provision that "Notwithstanding any other provision of law, no sales shall be made, no credits extended and no loans guaranteed under the Arms Export Control Act" and "no assistance under chapters" such and such "of the Foreign Assistance Act shall be furnished to or with respect to the government of El Salvador if it"——

Senator DODD. I think there is some confusion. I was talking about the legislation we passed last September. You are talking about the most recent action by the Foreign Relations Committee.

Senator JOHNSTON. That is correct.

Senator DODD. There we froze military spending in El Salvador at the 1982 levels. That is $66 million in security assistance. The administration's request was roughly $166 million and by a 12 to zero vote the committee decided to freeze spending at the 1982 levels rather than to meet the administration's $166 million request.

Senator JOHNSTON. Well, under this provision though they are not eligible for anything, are they?

Senator DODD. The amendment froze the request at the previous number. That was the intent.

Senator JOHNSTON. Well, as I read this, and I may be wrong and maybe the staff can help me on this, but "Notwithstanding any other provision of law, no sales shall be made or credits extended * * *"

Senator DODD. If they do anything to retard the land reform program, then they do lose all U.S. assistance.

Senator JOHNSTON. Haven't they done that, though, is the point?

Senator DODD. I believe they have significantly.

Senator JOHNSTON. I mean is there any question about the fact that they have modified or altered or suspended or terminated some provisions of it?

Senator DODD. There is no question about it. Phase II has been entirely repealed and phase III has been suspended. That was done by the constituent assembly, one of the first actions they took.

Senator JOHNSTON. So your amendment does in effect terminate all aid to El Salvador?

Senator DODD. We left it open. We did not say they could not make changes in the land reform program. If there was the sense, particularly with phase III, that there were some changes to modify the program to improve it, then that would not put them under that kind of restriction. I don't think there is much debate in light of what action has been taken by the constituent assembly, that the President would not be able to certify today that there in fact has been progress in the land reform issue.

Senator JOHNSTON. Well, as I gather, Senator Dodd, what you would have us do is, and I am inclined to agree with what I think your thrust is, and that is to play brinksmanship, is to urge El Salvador to do everything possible to continue reforms. If they do continue reforms, then we go along with further aid. And if they do not, then we terminate aid.

Senator DODD. That is correct. That is the basic thrust of it.

Senator JOHNSTON. All right. So what practical things, what specific sort of practical things would you think they should be able to do and that we should accept?

### LAND-TO-THE-TILLER PROGRAM

Senator DODD. I think they ought to immediately reinstitute phase III, the land-to-the-tiller program. That is the most important element. There has been some indication that permanent titles have been granted in the last few weeks to the provisional titles that had been extended prior to the suspension of phase III and the repeal of phase II. I would hope that that would continue, that it would not be a cosmetic action, and that in fact the permanent titles could move forward. On phase II, which was repealed, I am willing to listen to some modifications to that. The campesino leaders and the labor leaders who came up and appeared before Senator Tsongas and I, in fact the day before this vote, expressed strong opposition to what had occurred, and they had hoped that the government would make some changes.

They have also now allowed to be exempted land that had cattle grazing on it and grain crops. The campesinos and the labor leaders in that country feel very strongly that sugar and cotton are the two crops that should be exempted from the land reform program. They are too vitally important to the economy of that country to be included under a land reform issue. But two additional crops, if you will, the cattle issue and the grain issue, have now excluded property. It doesn't take much imagination for somebody to put cattle on some land in order to exempt it from the land reform program.

It is important, by the way, to mention that these campesino and labor leaders were the ones who most strongly supported the electoral process. They did not take a position in the campaign itself. They did not support one candidate over another, but really urged their membership to get out and vote and push for that particular effort. They were unanimous. There was not one dissenting voice when they appeared before us to voice their concern over what the constituent assembly did immediately after the March 28 elections.

Senator JOHNSTON. I have some more questions, but I will defer to my colleague, Senator Inouye.

Senator INOUYE. Just a matter of clarification, Senator Dodd. If the amendment, your amendment were the law of the land today, would El Salvador be eligible for U.S. aid?

Senator DODD. It would be eligible for economic assistance. If it went through and no changes had been made, then they would be excluded from military assistance.

Senator INOUYE. They would be eligible for economic aid?

Senator DODD. Yes.

Senator INOUYE. But not through economic support funding?

Senator DODD. No; we did not exclude ESF funds. Excuse me, if in fact it went through you would cut off all assistance if no changes were made.

### LAND OWNERSHIP

Senator INOUYE. I noticed in your statement certain interesting statistics that 2 percent owned 50 percent of the land area.

Senator DODD. That was the case; yes.

Senator INOUYE. Where is the point of acceptability? If 25 percent owned 50 percent of the land, would that be acceptable?

Senator DODD. I don't know if anyone has placed a specific percentage on what amount of land would have to be redistributed to allow for greater participation. The general feeling was that the 200,000 or so families that would have for the first time been allowed to acquire land and property was an acceptable program plan. I don't know what that amounts to in terms of actual percentage of population or property, but it was generally felt that would be more than adequate to satisfy the needs of people who have been excluded.

We had a situation, which gave rise to the civil war, where the famous 14 families in El Salvador basically controlled the entire country. What was surprising is not that a revolution took place, or a coup in 1979 and then a revolution, what is surprising is that it took so long to happen in a country where that kind of deprivation had existed. But I don't know that anyone has set a specific percentage that would have to be met overall.

I think it is a general feeling to require distribution of land that had been held in the hands of a very few people in that country, so there would be greater participation and the greater availability of participation.

Senator INOUYE. My memory may be failing me, but I recall reading not too long ago that if you included the Government of the United States as one party, that 10 percent of the population of the United States owns 50 percent of the land. In the case of Hawaii if you include the Government and three estates, those three entities would own 70 percent of all the land. So that is why I asked the question as to where would be the breaking point.

But you are convinced that the action taken by the assembly there is not in good faith support of the land reform program inaugurated under the former president?

Senator DODD. That is correct.

Senator INOUYE. Thank you very much.

Senator JOHNSTON. Senator Leahy.

### MILITARY ASSESSMENT IN EL SALVADOR

Senator LEAHY. Senator Dodd, the Foreign Relations Committee I believe has had access to the report by Brig. Gen. Frederick Woerner, has it not, on General Woerner's assessment of the military situation in El Salvador?

Senator DODD. We have, but I think it is a classified document.

Senator LEAHY. It is, but the existence of it is not a classified fact. Would you think that it might be helpful to the members of this committee to read that report prior to deciding on appropriations for military assistance to El Salvador?

Senator DODD. I think you might certainly. It is becoming dated in effect, but I think it would provoke questions you would want to raise over the effectiveness of our dollars in terms of how well things were working in the country. I would strongly urge you to take a look at it. As I say, you have to keep in mind it talks about a period that has since passed, but I think it would be worthwhile in terms of drawing questions about the present situation.

Senator LEAHY. This spring it was General Nutting I believe who made a public statement on El Salvador. I think it was about a week after I was there because I had made a statement that I didn't think there was a military solution in El Salvador, and he was asked a similar question and, as I recall, he made a public statement that he did not think there was a military solution to the war in El Salvador, certainly absent the introduction of American troops. Would that be your assessment?

Senator DODD. It is. In fact, everyone says the same thing. You are going to hear shortly from my good friend, Tom Enders, and I am sure Tom will tell you that he believes there should be a political solution, as well. I guess it is a question of how you define political solution. Everyone seems to agree, and I haven't heard anyone suggest there is a viable military solution. We have seen in the last few weeks, in the post-March 28 election period, that in fact the guerrillas seem to be doing as well as they were before. In fact, in confronting some of the U.S. trained battalions, they have done very well according to some reports.

Senator LEAHY. But the administration does ask for a steadily increasing amount of military assistance, do they not?

Senator DODD. No question, and I think it just going down the drain. The sad thing is that in El Salvador there is a strong middle there. You have a very strong and active private sector, you have a strong church group and you have people who represent a political alternative to those in political power. I think you lose the advantage of having those people play a part in trying to raise the profile of the political elements. The military elements enjoy the highest profile, and slowly we are seeing an erosion of the political elements. If we are left with nothing but the military elements on the extremes and very little left in the center, then the result, I think, only becomes predictable.

We should be doing everything possible to elevate the status of the political elements and diminish the profile of the military elements if we are truly going to seek a political resolution.

The election on March 28 is not the solution. An election is an important element, but what comes after an election is just as important. An election that may be conducted in the most fair way and then virtually destroys the reforms that were not allowing the left to pick up the support it was desperately seeking is a serious step backward. That is the problem.

So you let those extremes gain the profile and begin to control the situation, and you lose it. The tragedy in El Salvador is you have that middle. You have those private sector people, you have church people and you have good political people that we ought to be working more closely with, and I don't think we are.

Senator LEAHY. Well, speaking of a key player in the political arena of El Salvador, do you think, based on your own knowledge of Roberto D'Aubuisson, that it would be worthwhile for this committee to ask for a full briefing by our intelligence community on everything that we know about, classified or nonclassified, but specifically the classified material, everything that we know about D'Aubuisson?

Senator DODD. I would recommend it. You can do it individually or as a committee, whichever. Of course, in a couple of cases here you are more than familiar with the intelligence apparatus, but if you haven't it might be worthwhile.

Senator JOHNSTON. Is that D'Aubuisson?

Senator DODD. About Major D'Aubuisson. I think the important thing, as I mentioned earlier, is whether we want to be told we have to do this and if we don't, we are interfering in the internal affairs of a country. I think that has been the historic mistake. We haven't said no periodically when there were serious mistakes being made. If they want to go ahead, that is their business. We can't tell them what to do. If they want to destroy the land reform program, let them destroy it.

Senator LEAHY. I wish to compliment you on your statement. I thought it was an excellent one, and I appreciate it very much.

Mr. Chairman, I have no further questions.

Senator DODD. Well, I commend the committee for holding this hearing. As I said, just because El Salvador isn't the front page story today with the war in Iran and Iraq and what is going on in Lebanon, doesn't mean it doesn't exist. It is there, and in fact were it not for those two situations, in light of some of the battles that have gone on in the last few weeks, I contend it would be right up there. It is not going to go away, and we have to be far more creative than we have been in dealing with this issue.

Senator JOHNSTON. Just one final question for the record. Under your amendment all military assistance would cease, as I understand it, and under chapter 245 of part II of the Foreign Assistance Act, as I understand it, of the $164,900,000 request, some $105 million, or about two-thirds would be suspended. Is that about correct?

Senator DODD. That is about correct.

Senator JOHNSTON. Now in your amendment is the phrase "in a manner detrimental to the rights of the beneficiaries." Do you recall that phrase?

Senator DODD. Yes.

Senator JOHNSTON. Is that intended to be a phrase which would give the right to the Secretary to use discretion in determining whether such suspension or modification of the rights, or restoration of that modification, would be in the interests of these people? In other words, is it intended to give the Secretary discretion?

Senator DODD. Absolutely. That is the idea. It doesn't say you cannot make modifications of the program. I would be the first one to say that if something doesn't work you ought to be allowed to change it to make it work better.

Senator JOHNSTON. It is not an absolute, then, but a phrase of discretion.

Senator DODD. It is really a question of direction on it and the perception, let alone the workings of the program. There has been a 180-degree turn in that area in the last 2 or 3 months. People recognize prior to March 28 that things weren't working very well and some modifications were going to have to be made.

No one suggested that modifications were designed in effect to destroy the land reform program. Since March 28 that is the clear feeling and the evidence is overwhelming to support that conclusion and that is the distinction. As long as modifications are not designed to adversely affect the intended beneficiaries, then they ought to be allowed.

Senator JOHNSTON. If initially such modifications were designed to affect them adversely, but then were modified, would that satisfy the amendment?

Senator DODD. It would go a long way.

Senator JOHNSTON. Senator Inouye.

Senator INOUYE. Senator Dodd, I would like to ask a few more questions.

### FREEDOM OF ACTION OF PRESIDENT MAGANA

From your observation, would you say that President Alvaro Magana has any freedom of action?

Senator DODD. I think very little is my reading of it. Having talked with people in his neighboring countries who are knowledgeable, the general feeling is that he doesn't have the kind of leverage that one would normally attribute to the president of a country. I am told he is a very good man, he is a well respected individual, a distinguished citizen of his country and has contributed significantly over the years. But he was a compromise choice and really without the kind of influence and power to proceed in the direction he might desire. I have never talked to him, and I don't know what his specific intentions would be, but the clear understanding is that he is not the major political force or making the decisions in El Salvador even though he holds the office of president.

Senator INOUYE. Who or what is the major power force in El Salvador?

Senator DODD. Well, at this point, it is Major D'Aubuisson who is clearly in a paramount position in the country. I don't think there is any question about that. He is the head of the constituent assembly. He has a very good, strong relationship with the security forces, the military and is in a strong position in the country, the strongest.

Senator INOUYE. Where is former President Duarte?

Senator DODD. I understand he is still living in El Salvador. He is being very quiet. Someone told me they saw him not too many months ago, and he was fine.

Senator INOUYE. He has no official position now?

Senator DODD. Not that I am aware of.

Senator INOUYE. Thank you very much.

Senator JOHNSTON. Senator Leahy, do you have any further questions?

Senator LEAHY. No.

Senator JOHNSTON. Thank you very much again, Senator Dodd.

Senator DODD. Thank you.

# NONDEPARTMENTAL WITNESS

## THE AMERICAN UNIVERSITY

### STATEMENT OF WILLIAM M. LeoGRANDE, DIRECTOR OF POLITICAL SCIENCE

#### MARCH 28 ELECTIONS

Senator JOHNSTON. Our next witness will be Dr. William M. LeoGrande, director of political science at the American University.

Dr. LeoGrande, welcome to the committee. Please proceed. You may summarize if you wish and put your statement in the record.

Dr. LEOGRANDE. Thank you.

I would like to begin by thanking you, Mr. Chairman, and members of the subcommittee for inviting me here this afternoon to speak about U.S. policy in El Salvador. I will summarize my written statement, focusing on a number of specific issues beginning with the issue of the elections of March 28 and the nature of the new government that has come out of those elections.

Any effort to decipher the implications of those elections has to begin with a recognition of the central and irreducible fact of Salvadoran life. The political community there is deeply polarized into two opposing camps which are locked in civil war with one another.

The March elections were held among the groups on only one side of this fundamental cleavage, and for that reason it was impossible that such a truncated electoral process, however perfect it may have been in its execution, could produce the kind of political solution to the Salvadoran crisis which U.S. policymakers promised that it would.

Though the elections have rearranged the balance of forces within the government's camp, they have not moved El Salvador any closer to resolving the war between the government and its opposition. The opposition forces of the left refused to participate in the March elections on the grounds that the necessary conditions for free elections did not exist. The government's requirement that the left lay down its arms in order to join the process was regarded by the left as tantamount to an invitation to suicide.

Over the past 3 years tens of thousands of suspected leftist sympathizers have been murdered by the government security forces and the paramilitary death squads of the right. In fact, the last time that the leadership of the revolutionary democratic front, the political parties of the left, the last time their leadership met inside El Salvador in November 1980, it was kidnapped in a joint operation of the security forces and the right. The mutilated bodies of those leaders were found several days later.

In light of this history, the left feared that its electoral petitions and candidate lists it would be required to file would become death lists, and that open campaigning in areas controlled by the government would be impossible.

We should note that in May, shortly after the plan to hold elections was announced, the armed forces published a list of 138 people who it accused of being traitors responsible for terrorism. On that list was every prominent civilian political leader of the FDR, as well as a number of politically independent moderate Salvadorans in exile.

Beyond the decision not to participate in the elections, the various constituent groups of the left were divided on what policy to adopt toward the process. Some called upon their supporters to boycott the elections and others called for voters to deface their ballots. Some groups threatened to disrupt the elections with military action and others promised to simply ignore the election. No common strategy among the groups on the left was ever arrived at, and none of those strategies proved effective.

We should be cautious in interpreting the results of an electoral process truncated in the way in which this process was. I think it is very difficult to gain an accurate reflection of the political preferences of the people of El Salvador when only part of the political spectrum was represented on the ballot.

We should recall that in 1979 the white minority regime in Rhodesia held internal settlement elections which, like the elections in El Salvador, were procedurally fair and marked by a very large turnout. Bishop Muzorewa won an overwhelming victory in those elections with 67 percent of the black vote. Blacks and whites voted separately.

Many commentators at the time interpreted those results as a repudiation of the patriotic front guerrillas who had not participated in the elections and had not been able to disrupt them militarily. Yet less than 1 year later, when truly free elections in which the patriotic front participated were held under the auspices of the Lancaster House accords, the patriotic front won 80 percent of the vote taking 77 of the 80 legislative seats contested and Bishop Muzorewa barely maintained his own seat.

I think the Zimbabwe experience should alert us to the fact that elections held in the midst of a civil war and restricted to the parties on only one side of that war can produce deceptive results. The only accurate way to access the political preferences of the Salvadoran people is through an election in which all political parties from all points on the political spectrum can participate freely, securely and on equal terms.

### INSTABILITY OF ELECTED GOVERNMENT

The government which has been produced by the March elections is a government which is deeply divided and inherently unstable in my view. It includes both the extreme right and the Christian Democratic Party. D'Aubuisson's party ARENA and the Christian Democrats are so far apart in their vision of what the future of El Salvador should be, so far apart in their stated policy preferences that I don't believe it is going to be possible for a government which contains them both either to sustain itself or to put together a coherent program of policy. The new government has obviously reduced the influence of the Christian Democrats and increased greatly the influence of the far right, as Senator Dodd pointed out.

What can we expect over the course of the next 2 years as a result of the installation of this government? I think if we look back at the past 2 years, we have seen in El Salvador a government in which the Christian Democrats played an important but not by any means dominant role in coalition with the armed forces. It was a Christian Democratic Party which I believe was honestly committed to reform, honestly determined to try and curb human rights abuses and some elements of the Christian Democratic Party honestly sought some sort of political discussion and reconciliation with the left.

Yet in each of these areas over the last 2 years we have seen very little progress. How much progress can we expect now from the current government in which the Christian Democrats have been marginalized and in which the most important civilian political forces are political forces of the right which have long been on record in opposition to reform, in opposition to programs to reduce violence and human rights abuses, and which have ruled out any kind of political negotiations with the left.

## HUMAN RIGHTS VIOLATIONS

In fact, I think we can already see a retreat in both the areas of human rights and the areas of agrarian reform. In the months since the election all indications are that the human rights situation in El Salvador has deteriorated, that the paramilitary right has resumed its campaign of violence, that the toll of civilians murdered, even in the urban areas, has been on the rise.

There is yet to be a serious government investigation of even the most blatant human rights violations, particularly three instances which received considerable publicity in the United States, the massacre of civilians in the area of Mozote in December 1981 and the massacre of one or two dozen civilians in the San Antonio Abad suburb of San Salvador in January 1982.

There continues to be murders almost daily at El Playon Lava Field, and since the election there has been no discernable progress in the investigation of the murders or disappearances of U.S. citizens. Nor can we yet see any improvement in the human rights practices of the Salvadoran armed forces as a result of the training that they have received from U.S. trainers either in El Salvador or here in the United States.

## AGRARIAN REFORM

The situation with regard to the agrarian reform I think is even more striking and revealing than the human rights situation. The agrarian reform has three phases, the first phase of which is the only one which has been fully implemented. Even that phase is at this juncture in serious difficulty as a result of a lack of financial and technical assistance from the government, and I think it would be very easy, as former President Duarte himself has warned, to kill phase I of the agrarian reform through the process of not implementing it and through the process of not providing the necessary technical, logistical, political, and financial support from the government.

I should note that Major D'Aubuisson's party, ARENA, controls the ministry of agriculture and the institute of agrarian transformation.

Phase II of the reform which was regarded by most analysts as the heart of the agrarian reform program because it was aimed at lands producing some 75 percent of the foreign exchange currency earned by Salvadoran exports, has been abolished altogether by a decree of the constituent assembly which repealed the government's power to expropriate private property for the purposes of agrarian reform.

Phase III of the reform, the land-to-the-tiller program, which Senator Dodd discussed at some length, has been suspended for 1 crop year, although there have been assurances given, particularly in response to pressure by the Congress of the United States, that this suspension will not prejudice the rights of those who have already received titles, to those who have applied for titles and most importantly for those who were eligible to apply for titles before the suspension but had not yet done so.

It is important to note that in phase III of the agrarian reform some 137,000 eligible beneficiaries, that is to say, virtually 80 percent of the beneficiaries, have not even begun the process of requesting title for this land. These are the people who are at this point in something of a legal limbo. President Magana himself has said that the constituent assembly's repeal of the power to expropriate land may pose a legal obstacle to peasants who had not applied for titles under phase III before it was suspended.

In any event, I would point out to you that very few such families will be able to prove that they were renters of their land before the suspension of phase III because written receipts for rent payments are virtually unknown in rural El Salvador. So it will be very easy for landowners to simply deny that these people were on the land as renters before the suspension.

Moreover, phase III created an antireform atmosphere which led to widespread forced evictions of renters. As Senator Dodd pointed out, the estimates vary considerably from some 5,000 to 12,000 and recently an estimate of 25,000 evictions over the past few weeks. Some of those evictions were reportedly conducted with assistance from local security forces.

It does appear that, in response to pressure from the United States, the government of El Salvador has begun to make some effort to reinstate evicted families. But I would point out in the first place that it will be very difficult to make contact with people who have been evicted. They don't have telephones so that you can call them up. And more important than that, it will be very difficult to convince these people who have been evicted from the land by force to take the risk of once again returning to it.

Former President Duarte, former member of the governing junta, Jose Antonio Morales Erlich and acting Archbishiop Riveray Damas have all stated that they believe the intention of the right is to dismantle the agrarian reform, as the right promised to do before the election campaign. All three of these men have stated that they believe that the right's current pledge to preserve the reform is simply rhetoric designed to maintain economic and military assistance from the United States.

Let me say in summary with regard to the agrarian reform that as originally designed it would have benefited some 250,000 families and would have affected approximately 40 percent of the total cropland in El Salvador. Thus far only 53,000 families have actually benefited. That is to say, only 20 percent of the number intended. And the percentage of farmland redistributed thus far is still under 15 percent of total farmland in the country.

In conclusion, I would say that while the agrarian reform is not yet dead, it is clearly gravely ill, and it is under the dubious care of a government whose commitment to carrying it out is problematic at best.

## ECONOMIC DISASTER IN EL SALVADOR

The situation with regard to the economy is disastrous. The economy of El Salvador is essentially comatose and kept alive on a life support system of economic aid from the United States. Most important, there is no way in which the economy of El Salvador can begin to recover until there is an end to the war. And even at that point it will require substantial external assistance for recovery.

Militarily the situation, as Senator Dodd has pointed out, has not been improving despite the insertion of over $200 million of military assistance from the United States. In fact, there is some indication that over the last 2 years the guerrilla forces have actually gained in strength. Certainly they have gained in sophistication and in their ability to confront three battalions trained by the United States.

In conclusion let me say that it strikes me as ironic that the administration has celebrated the March elections, when in fact every stated objective of the policy of the United States is further from realization as a result of their outcome. The government of El Salvador today is less stable and coherent combining as it does diverse political forces. The government is ideologically less committed to ending human rights abuses, and the human rights situation is deteriorating as a result. The government is ideologically less committed to agrarian reform and has already taken actions which weaken that reform, perhaps fatally. And meanwhile the war continues with no prospect of an early end, and the economy continues to teeter on the verge of collapse.

It is clear that the centerpiece of U.S. policy in El Salvador was the holding of the March elections. It is not clear what the post-election policy is. Surely it is not enough for us to continue escalating military assistance merely to slow or retard the guerrillas' advance, it is not enough to continue escalating economic assistance merely to slow the economy's decline, and it is not enough to wield our considerable influence with the government of El Salvador merely to prevent it from abandoning any pretense of moderation or reform.

Unless our policy envisions a positive strategy for resolving the war in El Salvador, the current situation will not improve and hundreds of millions more in foreign assistance will disappear into El Salvador with no effect.

Genuine stability in El Salvador cannot be produced by military means. It can only come from the creation of a political system which responds to the needs and demands of the people of that nation. That is the way to produce self-generating and sustained stability. Such a system can only be created by finding a way to allow the left back into the political process in a way which guarantees its safety and which guarantees that it will have an equal chance to compete peacefully for political power. Such guarantees I believe can only come through a process of negotiations of the sort that the United States, heretofore, has been unwilling to either urge the government of El Salvador to undertake or to commit itself to publicly.

Ultimately, it seems to me, that the United States is going to have to decide whether we are willing to risk allowing the left some share or potential share of political power in El Salvador or whether we are prepared to pay the price in blood and treasure that will be required to sustain a war which has, in the end, no guarantee of victory.

Thank you.

PREPARED STATEMENT

Senator KASTEN. Your statement will be inserted in the record at this point.

[The statement follows:]

## STATEMENT OF DR. WILLIAM M. LEOGRANDE

I would like to begin by thanking you for giving me the opportunity to speak with you this afternoon on the issue of U.S. policy towards El Salvador. The crisis in Central America, particularly the war in El Salvador, has profound implications for U.S. relations with the entire hemisphere and beyond.

I am currently Director of Political Science in the School of Government and Public Administration at The American University here in Washington. I have worked in the field of Latin American Studies for the past ten years, focussing much of my research on Cuba and Central America.

### The Creation of a New Government

On March 28, 1982, El Salvador held its long awaited elections for a Constituent Assembly. The Christian Democratic Party (PDC), which had governed in coalition with the armed forces since early 1980 won a plurality of the vote and 24 seats in the 60 member Assembly. Five other parties, all substantially to the right of the PDC and critical of its reform programs, won 36 seats among them and formed a Rightist coalition to dominate the new government.

The leading party in this coalition, the Nationalist Republican Alliance (ARENA) led by Major Roberto D'Aubuisson, is the most extreme in its rightwing views. The second largest party in this coalition, the Party of National Conciliation (PCN), is the party that governed El Salvador from 1961 to 1979. During that period, the PCN served as the quasi-official party of the armed forces and was, in effect, the political expression of the alliance between the officers corps and the landowning oligarchy. Between them, ARENA and the PCN hold a majority in the Constituent Assembly.

Together, these two parties elected D'Aubuisson President of the Assembly; they were also prepared to exclude the Christian Democrats from the government and elect one of their own supporters as Provisional President of the Republic. They were dissuaded from this by U.S. warnings that further economic and military assistance were dependent upon the formation of a government of national unity including the PDC. Fearful of a loss of U.S. assistance, the armed forces finally stepped in and instructed the politicians to form a government acceptable to the United States and to select a moderate, politically independent President. Alvaro Magana, the mortgage banker for the officers corps, was selected by the PCN and PDC over the objection of ARENA, which charged that Magana was a communist.

The government which the March elections have produced is an inherently unstable one. The ideologies, policy preferences, and visions of Salvador's future which ARENA and the PDC have are irreconcilable. It is extremely doubtful that these two parties can continue to coexist in the same government, the insistence of the armed forces notwithstanding. President Magana, who serves at the sufferance of both the Constituent Assembly and the army, has vowed to play the cautious role of an interim administrator. The balance of authority between his position as Provisional President and D'Aubuisson's as Assembly President remains undefined. The Armed Forces, unused to tolerating the the apparent chaos of civilian politics, stand just off-stage ready to resume more direct control over the political system.

This, of course, is not the outcome hoped for by the United States when it urged the military-Christian Democratic government to hold the March elections. But any effort to decipher the implications of those elections for U.S. policy must begin with a recognition of the central, irreducible fact of Salvadoran life: the political community is deeply polarized into two opposing camps locked in civil war with one another. The March elections were held among the groups on only one side of this fundamental cleavage. From the outset, it was impossible that such a truncated electoral process-- however perfect its execution-- could produce a "political solution" to the Salvadoran crisis, as U.S. policymakers promised it would. Though the elections have rearranged the balance of power within the government camp, they have not moved El Salvador any closer to resolving the war between government and opposition.

The opposition forces of the FDR-FMLN* refused to participate in the March elections on the grounds that the "necessary conditions" for free elections did not exist. The government's requirement that the Left lay down its arms in order to join the process was regarded by the FDR-FMLN as tantamount to an invitation to suicide. Over the past three years, tens of thousands of suspected Leftists have been murdered by the government's security forces and the paramilitary "death squads" of the Right. The last time the leadership of the FDR met inside Salvador in November 1980, it was kidnapped in a joint operation of the security forces and the paramilitary Right. The mutilated bodies of the FDR leaders were found several days later. In light of this history the Left feared that its electoral petitions and candidate lists would become death lists, and that open campaigning in areas controlled by the government would be impossible. Indeed, in May, shortly after the plan to hold elections was announced, the Armed Forces published a list of 138 people it accused of being traitors "responsible for terrorism." The list included every prominent civilian political leader of the FDR as well as a number of politically independent moderates in exile. President Duarte himself acknowledged that he could not guarantee the safety of FDR leaders if they returned to run in the elections. Finally, since El Salvador had never had an honest election, the FDR-FMLN did not believe it would be allowed into power even if it won the elections.

While the Christian Democrats were willing to discuss these concerns with the Left in hopes of bringing them into the process, the military refused to permit such discussions. The United States was unwilling to pressure the army to relent, preferring instead to use the elections to discredit and isolate the Left.

Beyond the decision not to participate in the elections, the constituent groups of the FDR-FMLN were divided on what policy to adopt toward the process. Some groups called upon their supporters to boycott the elections; others called for voters to deface their ballots (which some 11% did). Some groups threatened to disrupt the elections with a military offensive; others promised to simply ignore them. No common strategy was ever arrived at, with the result that none of the strategies proved effective.

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* Revolutionary Democratic Front (FDR)- Farabundo Marti Front for National Liberation (FMLN)

Despite sporadic reports of irregularities, some of which the government conceded, the elections themselves appear to have been procedurally fair; no one party stole the election by stuffing the ballot box or controlling the final count. Turnout for the elections appeared to be higher than anticipated. The Reagan Administration has interpreted the turnout as "a repudiation of the Left" and has used it to justify its continued opposition to negotiations between the government and the opposition. Others, including former President Duarte and Acting Archbishop Rivera y Damas, have interpreted the results as a "vote for peace" rather than a vote against the Left. The FDR-FMLN has attributed the turnout to fraud and coercion.

Recently, researchers at the Catholic University in El Salvador have charged that the official turnout, reported at 1.5 million voters, was inflated by 20-100%. Their argument is based upon calculations that it was physically impossible for 1.5 million people to have voted, given the number of polling places and the time required to vote. The time required to vote, however, is a matter of dispute and there appears to be no way to establish it beyond doubt. At a minimum, the Catholic University study should make observers cautious in their estimate of the voter turnout and its implications.

The Reagan Administration's conclusion that those who voted were repudiating the Left is even more problematic. No doubt some voted for this reason. But the Catholic Church, which remains the most prestigious institution in Salvadoran society, urged people for two months prior to the elections to vote as a way of expressing their desire for peace. Finally, some people undoubtedly voted because they feared retribution by the government if they did not. During the campaign, the government warned that an abstention was a vote for the Left. In circumstances were suspicion of Leftist sympathies can lead to slow death by torture, abstention becomes an act of considerable courage.

Because identity cards were stamped when people voted, every individual carries with him at all times a record of whether or not he voted. In addition, individual ballots were numbered-- a procedure used in the past in El Salvador to intimidate voters by creating a reasonable doubt as to the secrecy of their ballot.

While people voted for all the reasons described above, there is no way to know which of these motivations predominated. It is both deceptive and dangerous to pretend otherwise.

We should be equally cautious in interpreting the results of such a truncated electoral process as an accurate reflection of the Salvadoran people's political preferences. In 1979, the white minority regime in Rhodesia held "internal settlement" elections which, like the elections in El Salvador, were procedurally fair and marked by a large turnout. Bishop Muzorewa won an overwhelming victory with 67% of the black vote (Blacks and whites voted separately). Many commentators at the time interpreted these results as a repudiation of the Patriotic Front guerrillas who had not participated in the elections and had not been able to disrupt them militarily. Yet less than one year later, when the Patriotic Front participated in elections conducted under the auspices of the Lancaster House Accords, the Front won over 80% of the vote, taking 77 of the 80 legislative seats contested. Bishop Muzorewa barely won his own seat.

The Zimbabwe experience should alert us to the fact that elections held in the midst of civil war and restricted to the parties on one side of that war can produce deceptive results. The only way to accurately assess the political preferences of the Salvadoran people is through an election in which all parties can participate freely, securely, and on equal terms.

All efforts to assess the Left's popular support are speculative in the extreme, but the outcome of the March elections should not be reassuring to the Reagan Administration. The Left, of course, did not campaign and some groups urged their supporters to boycott the election. In the areas where the Left has its strongest support-- the areas under its control-- there was no voting at all. Of the hundreds of thousands of refugees in

Honduras and elsewhere, many are regarded as being supporters of the Left. None of these people voted.

Despite all this, 11% of the voters cast null or defaced ballots as some groups on the Left had urged. Had the FDR-FMLN been able to campaign freely, it would undoubtedly have done much better. After the election, President Duarte estimated that the Left would have received 15-20% of the vote if it had joined the process. Other observers offerred estimates as high as 35%. The numbers are less important than the fact that the Left is hardly the small minority of terrorists without popular support which the Reagan Administration has portrayed them as. Even if only 20% of the populace sympathizes with the Left, El Salvador will never enjoy political stability until this group is reintegrated into the political process.

## The War

In the summer of 1980, faced with a rising tide of violence from the security forces, the Left abandoned its efforts to confront the government with massive urban demonstrations and shifted its major efforts to building a rural guerrilla army capable of defeating the Armed Forces. By January 1981, the FMLN had grown to a force of 4000-6000 regular guerrillas supported by several thousand territorial militia members. The FMLN's "final offensive", launched that January, failed in its primary objective of overthrowing the government before the inauguration of Ronald Reagan. Nevertheless, the offensive demonstrated that the guerrillas had armed units in virtually every part of the nation (not just in their strongholds in Morazan and Chalatenango provinces); that these farflung units from five different and often feuding groups could launch coordinated attacks on a national scale; and that the guerrillas were capable of seizing small and even medium-sized towns, though they were unable to hold them. The FMLN attributed the failure of its offensive to a lack of training and experience; it withdrew to its base areas for training and avoided engagement with the army for nearly six months. It responded to government offensives by withdrawing rather than by attempting to defend its base areas. This quiescence on the part of the FMLN was interpreted in Washington as weakness and led to wildly optimistic predictions that the war would be over in a few months. Major increases in military assistance were sent to El Salvador to give the Armed Forces the capability to finish the war rapidly.

In August 1981, however, the Left unveiled a new offensive combining sabotage of the economy with local attacks on military garrisons around the rim of the rebel-held areas. This new strategy was designed to keep government forces spread thin and on the defensive, while systematically eliminating remote military outposts and expanding the territory under effective guerrilla control. The FMLN exhibited much better command and control, and tactical expertise than it had in January. The armed forces, composed largely of illiterate peasants with little training, found itself confined largely to the cities, ceding much of the countryside to the guerrillas. When the army attempted offensives aimed at guerrilla base areas, they found that the FMLN was able to successfully defend them.

This turn of events caused grave concern in Washington, leading some government analysts to fear that the war was suddenly being lost. Another sharp increase in military assistance followed forthwith. In fact, the warnings of imminent doom were as overdrawn as the earlier expectations of quick victory.

At the time of the elections, some elements of the FMLN launched attacks on large cities, including the provincial capital of Usulutan. The inability of these attacks to disrupt the elections reopened old divisions within the FMLN over whether military action should be aimed at instigating urban insurrections (as were the attacks of January 1981 and March 1982), or whether the guerrillas should concentrate on a gradualist strategy ("prolonged people's war") akin to that followed in the August 1981 offensive. The restoration of unity within the FMLN required several months, during which the guerrillas launched no major attacks.

The Left's failure to disrupt the elections and the subsequent lull in the war once again produced optimism in Washington that the war could ultimately be won-- though this time the estimates were in years rather than months. The key elements of current U.S. military policy are the training of elite infantry battalions in El Salvador and in the United States (three have been trained thus far), and the expansion of the firepower of the Salvadoran air force. These new capabilities are intended to allow the Salvadoran army to launch successful offensives against the guerrilla forces in their base areas.

At this juncture, it is difficult to estimate how successful this military strategy is likely to be. The three U.S. trained battalions have only recently begun operations together, but in the past few weeks they were unable to dislodge FMLN forces in major battles in Morazan and Chalatenango. The fighting in Morazan was widely reported to have been the government's largest defeat of the war.

Several themes emerge from the course of the war over the past year and a half. The guerrillas have consistently gained in strength and consolidated their control over ever-wider portions of the countryside. They remain unable to challenge the army's control of the cities. Despite the infusion of over $100 million in military assistance, U.S. training, and an expanded air force, the Salvadoran army appears no more able today to defeat the guerrillas than it was two years ago. The war is still stalemated, and will remain so for the foreseeable future.

## The Economy

After two and a half years of civil war, the Salvadoran economy is essentially comatose, surviving on the life support system of U.S. economic assistance, which has increased twenty-five fold since 1978. The war has made refugees of hundreds of thousands of peasants with the resulting losses in agricultural production. The guerrillas have destroyed bridges, electric power stations, transport, and foreign exchange earning crops as part of their war strategy. The government, for its part, destroys food crops in areas it regards as sympathetic to the guerrillas.

Because of the war, some $820 million has been lost through capital flight since 1979 and the rate of investment has fallen to near zero. Unemployment approaches 30%, and GNP has fallen by at least 16% in the past two years. In the face of such catastrophic losses, even massive U.S. economic assistance takes on the character of transfusions for a patient whose arteries are still severed and bleeding: they may keep the patient alive, but it is difficult to see much hope of improvement.

The Salvadoran economy cannot be stabilized or begin to recover until the war comes to an end. Moreover, the longer the war continues, the more extensive the damage that must ultimately be repaired.

## Agrarian Reform

The new Salvadoran government is dominated by a coalition of Rightist parties who campaigned against the reforms initiated by the military-Christian Democratic junta. When, in the aftermath of the elections, it became clear that continued U.S. assistance depended upon maintaining the reforms, the Right stopped its public attacks on them and began to speak instead of "perfecting" them. In practice, however, the government has begun to dismantle the agrarian reform and continues to state publically that the banking and export sectors nationalized in 1980 should be returned to private hands.

The agrarian reform, adopted in March and April of 1980, consists of three phases. Phase I expropriated farms in excess of 1235 acres, turning them into cooperatives owned by the permanent workers on those farms and comanaged by the peasants and the government's Institute for Agrarian Transformation (ISTA). Initially 329 farms were covered by the reform, but a number were exempted, returned to their owners, or abandoned due to violence. The 268 cooperative currently functioning comprise about 10% of total crop land, and are worked by about 3.6% of total farm families. This is the only phase of the agrarian reform which has been fully implemented.

Phase I has been plagued by violence (particularly when it was first initiated),and by insufficient political, financial and technical support from the government. These problems have stemmed from resistance to the reform from some elements of the security forces, and some elements of the government bureaucracy, including the Ministry of Agriculture. A lack of resources and the diversion of resources through corruption have also slowed progress on Phase I. A recent audit of ISTA found that the agency could not account for its expenditures of U.S. AID funds.

Phase II of the reform would have expropriated farms between 247 and 1235 acres, establishing cooperative similar to those in Phase I. The Phase II farms comprise 19% of total crop land; aproximately 50,000 families (10% of total farm families) would have benefited from the reform. The Phase II farms comprise the heart of the agricultural economy, accounting for some 75% of the nation's foreign exchange earnings. The Reagan Administration opposed implementation of Phase II on the grounds that it would be too disruptive to the economy, and the military-Christian Democratic government postponed it indefinitely.

On April 27, 1982, the Constituent Assembly repealed the government's power to expropriate private property for the purpose of agrarian reform, thereby abandoning Phase II permanently.

Phase III of the reform, also known as Land to the Tiller or Decree 207, permits renters to purchase up to 17 acres of land they are working as tenants. Aproximately 9.6% of total crop land is affected by Phase III and some 173,000 families (36% of total farm families) are potential beneficiaries.

Implementation of Phase III was not begun for 9 months after it was decreed. U.S. AID studies undertaken during this period indicated that most potential beneficiaries were unaware of the reform's existence. Thus far, some 36,000 peasants have received or applied for provisional title to land under

Phase III-- about 21% of those eligible. Only a few permanent titles have been distributed.

On May 19, 1982, the Constituent Assembly suspended Phase III for one crop-year (up to four years for some crops) on lands producing sugar, cotton, grain, and cattle. Such lands include 95% of all rented land covered by Phase III. Coincident with the suspension, the Ministry of Agriculture ordered a halt to all titling procedures for Phase III lands. In part as a result of adverse reaction by the U.S. Congress, titling was resumed and the government gave assurances that the suspension would not prejudice the rights of those with provisional titles, those who had applied for titles, or-- most important-- those who were eligible to apply before the suspension but had not.

The legal status of the 137,000 families in this last catagory is precarious, however. President Magana has said that Constituent Assembly's repeal of the government's power to expropriate land may pose a legal obstacle to peasants who did not apply for titles under Phase III. In any event, few such families will be able to prove they were renters before the suspension of Phase III because written receipts for rent payments are virtually unknown in El Salvador.

The suspension of Phase III created an anti-reform atmosphere which led to widespread forced evictions of renters. Estimates of the number of evictions vary from 5000 to 12,000 over the past few weeks, many of them reportedly conducted with the assistance of local security forces. Recently, it appears some efforts are being made to reinstate evicted families, but contacting those evicted presents a major logistical problem.

Former President Duarte, former junta member and PDC leader Jose Antonio Morales Erlich, and Acting Archbishop River y Damas have all stated they believe the intention of the Right is to dismantle the agrarian reform as it promised to do during the campaign. Their public pledges to preserve the reforms are regarded as mere rhetoric designed to placate the United States.

In summary, the three phases of the agrarian reform as originally designed would have benefited some 250,000 families, half of all farm families (40% of the rural population is landless and would not have benefited from the reforms at all), and would have affected 40% of total farm families.

Thus far, only 53,000 families have actually benefited-- about 20% of the number intended. The percentage of farm land redistributed thus far is under 15% of total farm land. The reform, while not yet dead, is gravely ill and under the dubious care of a government whose commitment to carrying it out is problematic at best.

## Human Rights

The human rights situation in El Salvador has deteriorated considerably since the March elections. Innumerable reports from Salvador indicate that the paramilitary right has escalated its campaign of political assassination. The Human Rights Commission of El Salvador has reported that the weekly death toll in the capital has jumped from 20-25 before the elections to 35 at present. During May, 12 Christian Democratic Party activists, several of them mayors, were murdered, prompting former President Duarte to decry the rising "cycle of violence" which he blamed on actions of the military operating in a climate of hate created by ARENA.

The reliability of the data on civilian deaths compiled by human rights organizations in El Salvador has become the subject of considerable debate. The Reagan Administration has sought to discredit the reports of these organizations, claiming they sympathize with the Left. Reports of civilian deaths from the U.S. embassy are consistently far below those of all Salvadoran human rights groups. Reports prepared by other human rights groups, including the UN Human Rights Commission, Amnesty International, Americas Watch, and the ACLU are generally in accord with the reports from Salvadoran groups. In part, the discrepancies between U.S. government reports and those of the human rights organizations is attributable to the fact that the U.S. embassy report is compiled from the San Salvadoran press, where most rural deaths go unreported.

U.S. government data differs from that of all other sources in two additional regards. All sources except the U.S. government reported a significant increase ranging from 20 to 60% in civilian deaths from 1980 to 1981. Embassy data show a 40% decline. All sources except the U.S. government that try to attribute responsibility for civilian deaths found that the Salvadoran security forces were responsible for the overwhelming majority of the killings. U.S. embassy data concludes that of those deaths for which responsibility can be attributed, the Left was responsible for 47%, the Right for 7%, and the armed forces for 46%. These differences in data are most likely caused by the embassy's methodology in which civilians killed in military operations by the Left are counted as civilians killed by the Left, whereas civilian killed in government military actions are regarded as combat deaths and are not counted.

The case of El Playon illustrates the Salvadoran government's continuing unwillingness to undertake any serious effort to curb human rights abuses. In the fall of 1981, foreign correspondents discovered on the outskirts of San Salvador El Playon lava field which had become a vast dumping ground for murdered civilians. When this was brought to the attention of Defense Minister Gracia, he at first denied it and, when confronted with evidence, promised an investigation. President Duarte echoed that promise. No investigation was undertaken, however, and bodies continue to be dumped at El Playon on a daily basis.

One of the arguments the Reagan Administration has advanced to justify U.S. training for Salvadoran troops is that U.S. trainers will be able to instill a more professional and humane attitude in their trainees. It should be noted that, before the recent training programs were begun, the United States had trained 1,971 Salvadoran military officers, with no notable improvement in the human rights practices of the Salvadoran army.

The recent training program does not show evidence of being any more effective. The elite Atlcatl Battalion trained in El Salvador by Green Berets has a reputation for conducting scorched earth campaigns in guerrilla controlled zones. It was this unit that was responsible for the massacre of several hundred civilians in the Mozote region in late 1981.

Finally, it must be noted that since the election there has been no discernable progress in the investigations of the murder of the four U.S. religious women, the murder of the two AIFLD agrarian reform advisors, or the disappearance of journalist John Sullivan.

## Conclusion

It is ironic that the Reagan Administration has celebrated the March elections as a great victory for U.S. policy when, in fact, every stated objective of U.S. policy is further from realization as a result of their outcome. The government of El Salvador is less stable and coherent, combining as it does both the Christian Democrats and ARENA. The government is ideologically less committed to curbing human rights abuses, and the human rights situation is deteriorating as a result. The government is ideologically less committed to agrarian reform, and has already taken action that weakens the reform, perhaps fatally. Meanwhile, the war continues with little prospect of an early end, and the economy continues to teeter on the verge of collapse.

It is clear that the centerpiece of U.S. policy in El Salvador was the holding of the March elections; it is not clear what the post-election policy is. Surely it is not enough to continue escalating military aid merely to slow the guerrillas' advance, to continue escalating economic aid merely to slow the economy's decline, or to wield our influence with the government to prevent it's abandoning any pretense of moderation or reformism. Unless U.S. policy envisions a positive strategy for resolving the crisis in El Salvador, the current situation will not improve and hundreds of millions more in foreign assistance will disappear into Salvador with no effect.

Genuine stability in El Salvador cannot be produced by military means; it can only come from the creation of a political system which responds to the needs and demands of the people of that nation. Such a system can only be created by finding a way to allow the Left back into the political process in a way which guarantees its safety and which guarantees that it will have an equal chance to compete peacefully for political power. Such guarantees can only come about through negotiations. Ultimately, the United States must decide whether it is willing to risk allowing the Left some share or potential share of political power in El Salvador, or whether it is prepared to pay the price in blood and treasure that will be required to defeat them-- if that is possible.

Senator KASTEN. Dr. LeoGrande, have you been to El Salvador since the elections?

Dr. LEOGRANDE. No, sir, I have not.

Senator KASTEN. When was the last time you were in El Salvador?

Dr. LEOGRANDE. I was in El Salvador last at the end of 1980.

Senator KASTEN. Where are you getting the information that is included here, from other people who have been there or from your reading of the newspapers?

Dr. LEOGRANDE. From a wide variety of sources, Senator, from people who have been there recently, from Salvadorans who are in exile on both sides of the political spectrum, from a variety of documents, from speaking with people in the Government of the United States and in other governments, a wide variety of sources.

Senator KASTEN. You support the concept of free elections, and you implied that the U.S. policy prior to elections was the holding of free elections. You support the concept of elections; is that right?

Dr. LEOGRANDE. I support the concept of free elections, yes.

Senator KASTEN. Well, I don't understand. You seem to say then that because through the electoral process the left was not included that now we have some kind of a responsibility to impose a solution, that somehow we should know or you should know or the experts that you are talking to should know that because the election did not come out the way we wanted that now the U.S. responsibility is to say, whoops, we do not like the way the votes were, forget the free election, we want the government this way because this is the way we dictate it. Now whether we are right or wrong, left or right, I don't understand what gives you or me or anyone the right to say this is the way the free elections should have come out.

Dr. LEOGRANDE. Senator, what I am saying is that the election which was held in March does not, in my mind, meet the criterion of a free and open election because it was constructed in such a way that a broad portion of the political spectrum was not able to participate in it.

Senator KASTEN. They were able to participate. They chose not to participate for political purposes.

Dr. LEOGRANDE. Sir, I believe they chose not to participate in it for very rational expectation that if they appeared in that country to participate in the election they would be killed.

Senator KASTEN. My impression was that some of the people voted at the risk of their lives, that they, in fact, came and stood in lines at great personal risk to themselves and their families, and yet they waited for their chance to vote, something that they had never done in their lives. They did so because they believed in the process.

Without making a comment as to whether we want a left wing, right wing, centrist, whatever type of government in El Salvador or anywhere else, I do not understand how you and others can say that we did not like the results, and therefore we have a duty to impose something other than what we got. It does not make sense to me.

Given the current economic and military situations in El Salvador, what, in your opinion, would be the immediate, and then also what would be in your opinion, the long-range effect of either a total suspension of aid to El Salvador or a reduction in the current planned assistance to that country? In other words, specifically, do you believe that the pro-reformist groups within the military, the unions, or the political parties would be strengthened or would they be weakened as a result of such an aid cutoff?

Dr. LeoGrande. If there were a total cutoff of all military and economic assistance, I believe that it would be very difficult for the current government to sustain itself for a very long time. I would agree with Senator Dodd that the key variable in that is not so much the military assistance as it is the economic assistance. The economy is in very desperate straits.

I don't know, frankly, what would happen within the political process of El Salvador as a result of a cutoff of assistance. I think there are two possibilities. One is that the more extreme right wing elements within the armed forces, those who aline themselves with Major D'Aubuisson, would come to the fore and that the reform processes would be reversed in their entirety. That is one possibility.

The other possibility though is that more reform minded elements in the armed forces, those who were associated with Colonel Majano, the people who conducted the coup in October 1979, would come to the fore in a process similiar to what I think we have seen or are seeing in Guatemala. That is to say, the cutoff of assistance in fact strengthened rather than weakened the reform elements. I don't know which of those would happen.

Senator Kasten. To answer my question, do you favor a suspension of all economic aid at this point?

Dr. LeoGrande. I certainly favor a suspension of all military aid. I would favor a suspension of economic aid pending a reinstitution of the complete agrarian reform program.

Senator Kasten. Well, defining these agrarian reform programs gets difficult. On page 4 of your statement you assert that the elections, and I quote, "simply rearranged the balance of power within the government camp but have not moved El Salvador any closer to resolving the war between the government and the opposition."

Now, I do not think anyone thought that the elections were going to be a magic cure for the country's ills, but in my opinion, and I think in the opinion of most, they were a success in that they reinforced the democratic values in the institutions.

Looking back at history, if I have done my homework right, I find no other case in recent Salvadoran history in which an opposition party was ever allowed to come to power through an election process in that country. In other words, as a rule whichever party was in power, and usually it was the PNC, always seemed to win the election. By hook or by crook, one way or the other, the party in power won the election. Yet in March the party in power, the Christian Democrats, agreed to step aside peacefully. In other words, we had a democratic transition, which in looking back we have not had before, to allow the coalition to take charge of the assembly.

Now in the long run, it seems to me that this strengthens the legitimacy of the government. In the short run, doesn't this turnout in the fairness of the transition discredit the guerrillas and strengthen the government? I mean the fact is that we had through the electoral process a changing of the guard, if you will, that we have not had there before.

Dr. LeoGrande. While your characterization is an historically accurate one—this is the first time that the outs were allowed in—I don't think in fact that it strengthens the legitimacy of the government among that portion of the population whose political preference lies with the left.

There is great debate and no way to know for sure what percentage of the population that is. But the fact of the matter is that that part of the political spectrum was not in the electoral process, and I don't believe that the legitimacy of the government with those people is enhanced by a political process from which they were excluded.

Second, I think that to the extent the legitimacy of the government depends upon its delivering the goods, so to speak, in the area of reforms, the current actions of the government have undermined its legitimacy in that regard.

Senator Kasten. Senator Inouye.

Senator Inouye. In my meetings with non-European third world leaders I have oftentimes heard that one of the major weaknesses of Americans is our adoption of a posture of self-righteousness in insisting that foreigners adopt our mold of democracy, that we set the standard, and they should abide with our standard.

Do you think this is a realistic expectation to have developing countries with almost total illiteracy with a background of 400 years of colonialism to suddenly sprout forth as a democracy such as ours?

Dr. LeoGrande. I think there is no question that it is difficult to develop the political culture which is necessary for the successful creation of democracy. I think it does in a very important way involve literacy, education, and so forth. I believe that all nations are capable of developing a democratic set of political institutions, and I think the exact nature of the institutions is less important than the fact that people of all political persuasions are able to participate in the process and have their voices be equally heard.

Senator Inouye. Studying the evolution of history in the United States, I note that it wasn't too long ago when the free election process was not the law of the land.

Dr. LeoGrande. Quite so.

Senator Inouye. During my term in the U.S. Senate we had to pass laws guaranteeing American citizens the right to vote. In fact, a few days ago we passed another measure to guarantee that right.

Dr. LeoGrande. It is a never ending struggle.

Senator Inouye. It has taken us 200 years to get to this point. Do you think it is expecting too much to have the Salvadorans do it in 5 years?

Dr. LeoGrande. I am not suggesting that we can condition our support or our assistance on an electoral process which is absolutely spanking clean. We ourselves would be hard pressed to meet such a criterion even today.

What I am saying is that if we cannot help El Salvador out of its current conflict, if we cannot find a way of reintegrating a substantial portion of the population into the political process, then there is no way to move the war in that country closer to an end. There is no way then for us to find a successful outcome for the very substantial amount of money that we have poured into that country and continue to pour into that country in terms of assistance.

### PRESENT POLITICAL SITUATION IN EL SALVADOR

Senator Inouye. Would you consider the political situation in El Salvador better or worse today than it was 10 years ago?

Dr. LeoGrande. Worse, simply on grounds of the violence. The level of violence is certainly ten to fifteen times as high as it was 10 years ago. It is a mixed picture certainly. There are ways in which the process is somewhat more open today than it was 10 years ago.

If the United States, 10 years ago had pressured the armed forces of El Savador to accept the results of the 1972 election which the Christian Democratic and Social Democratic Party won, we would not be faced with the conflict we are faced with today. We did not do that partly because Salvador did not seem so important in those days, and partly because we were concerned that those civilian politicians were a little bit too reformist in their orientation. We preferred to stay with the stability and familiarity of the old system.

Today I think we are paying the price for that decision, and I hope that 3 or 4 or 5 years from now we will not look back at the current situation and say, "If only we had moved toward finding some way of getting out of the civil war by political means, through a negotiated settlement, we could have avoided the current morass."

Senator Inouye. My final question, and this is an iffy one, sir, if President Duarte had been reelected and his party assumed the majority power in the assembly, would you have looked upon the electoral process as being a good one?

Dr. LeoGrande. No; the electoral process would still have suffered from the same basic flaw that I have described to you. The outcome would not have been any more legitimate as a clear and accurate expression of political preferences of that society than the outcome that we have.

I will say though that had the Christian Democratic Party received a majority of the votes in the constituent assembly, the prospects for a negotiated solution which would bring the left back into the process would be much brighter. The strengthening of the right has clearly moved the prospect of successful negotiations further from realization than they were before.

Senator Inouye. Circumstances being what they were, say a month before March and during the election time, would you say that it would have been possible to have the type of election you described, a clean, perfect election?

Dr. LEOGRANDE. No; it certainly would not have been possible to have a clean and perfect election. That is not what I think should have happened. I think the only way that Salvador can have an election in which all parties are free to participate is to precede such elections with serious negotiations which will address the concerns of the parties of the central left and left: that they will be able to participate in the election without fear of their lives, that the ballots will indeed be honestly counted, and that their supporters will not run a risk by coming out and voting for them. And those conditions can only be met by negotiation.

Senator INOUYE. I am always having a final question, but measuring violence, which is worse, the left violence or the right violence?

Dr. LEOGRANDE. I believe the violence of the right is worse. The overwhelming consensus of human rights organizations inside El Salvador and internationally is that the government security force are responsible for the overwhelming number of noncombatant civilians killed. It is only the reports that come from the U.S. Embassy which indicates a parity, if you will, although I should point out that even the Embassy reports indicate that the government security forces and the paramilitary right together account for a majority of the deaths.

Senator INOUYE. Thank you very much.

Senator KASTEN. Senator Leahy.

Senator LEAHY. Dr. LeoGrande, I just want to make sure I fully understand that last answer. You are speaking numerically that the violence of the right is worse than the left. You are not suggesting, are you, that it is any less terrible for the victim of violence whether it comes from the left or the right?

Dr. LEOGRANDE. No; certainly not. I am speaking solely in quantitative terms, which is always very difficult to do with this kind of subject.

Senator LEAHY. I wanted to make sure that was clear in the record. I remember one woman I spoke with in El Salvador who lost most of her children, her husband and members of her family were all taken out and killed. I asked her who had killed them, the right or the left? She said, "I don't know." And I said, "Well didn't you try to find out?" She said, "No." I said, "Why not?" She said, "I was afraid if I found out they might come back and kill me." I said, "Do you ally yourself with the right or the left?" She said, "Neither." I said, "What do you want?" She said, "I want to live."

Your assessment of the numbers are similar to many others we have heard here, however.

I have no questions of this witness, Mr. Chairman. I know that Secretary Enders has been waiting for some time, and I don't want to cut into that time.

Senator KASTEN. We may have additional questions to submit for the record.

I would like to ask you one other question on this left-right business. In your discussion of the human rights situation you state in your testimony that "the situation has deteriorated considerably since the March elections." You then go on to dismiss administration reports that the human rights situation is not deteriorating, and you assert that other human rights groups, the U.N. Human Rights Commission, Amnesty International, et cetera, are essentially in accord with your position.

It is my understanding that Amnesty International's present view of the human rights situation is that violations have continued on both the left and the right, and that there has been no significant change since the election.

Now I do not think any of us would defend one single human rights violation, although I would feel that the human rights violations of the right or of the left are equal, and I would disagree with your answer to Senator Inouye, if I understood it properly. But I understand Amnesty International has not detected a significant change in the situation during these past several months.

I do not understand how you can state that the situation has deteriorated considerably since the election. Now, were reports by those groups which you referred to prepared, and are any of them based on study missions which have not been made available to us? It seems to me that this is contrary to all of the evidence that we have been able to locate.

Dr. LeoGrande. Let me clarify, Senator, what I intended to convey in the written statement. In citing the reports of various groups, I was referring to the general interpretation of the levels of violence and the extent to which that violence could be attributed, not in the last few months since the election, but in general.

I have not seen the national figures on the number of people killed in the months since the election. In referring to the increase of violence in the months since the election, I was not referring to national human rights reports of that sort, but rather to various reports from individuals, recorded in the press and elsewhere, which indicate that the level of violence has gone up. I was not referring to a report of any specific human rights organization, other than the one from the Salvadoran Committee on Human Rights which is cited in the testimony.

Senator Kasten. Well then I would disagree with your statement that the situation has, and I quote, "deteriorated considerably since the March elections" until we have evidence to that effect, because most of the evidence that we have as of this time, the reports at least, are to the contrary, that the level of violence is either the same, or in some cases, as in the opinion of the administration, that it has somewhat diminished.

We thank you for your testimony.

# DEPARTMENT OF STATE

## STATEMENT OF HON. THOMAS O. ENDERS, ASSISTANT SECRETARY OF STATE, BUREAU FOR INTER-AMERICAN AFFAIRS

Senator KASTEN. Our next and concluding witness for today's hearing is Mr. Thomas Enders, Assistant Secretary of State for Inter-American Affairs.

We thank you for your patience in sitting through quorum calls and Senators chasing back and forth and also long testimony. I appreciate having you here with us today, and we look forward to your statement.

Mr. ENDERS. Thank you very much, Mr. Chairman.

I appreciate being back. I have a statement which perhaps I could submit for your record. Perhaps I could, before going to questions, make a couple of comments on some of the exchanges and testimony that you have had. That would be a quicker way rather than repeating some of the issues that have already been raised.

Senator KASTEN. Your entire statement will be made a part of the record, and we would appreciate it if you would reply.

Mr. ENDERS. Thank you. I would like to address as directly as I can the concerns that have been expressed in the committee.

Perhaps I might start by seeing whether I can't help on this question of levels of violence since the election. There are four organizations which produce statistics on deaths attributable to political violence. I don't mean to suggest by that that they are all of equal value in our judgment. Some of them we believe are substantially inflated by duplication of reports or are open to that risk, but I think it is useful to indicate what they show.

Three of those organizations are organizations which have a clear preference for the left. How do I know that? Well, one of them, for example, refers to deaths that it attributes to the guerrilla forces as "Ajusticiamientos," the meting out of justice, which would suggest a rather clear bias on their part.

Senator LEAHY. Which organization is that, Mr. Secretary?

Mr. ENDERS. That is the University of Central America.

What do they show? Well, the University of Central America, we have only 2 months since the election, but we have April and May, and they report total deaths attributable to political violence of 353 in April and 334 in May. Those are a large number of deaths, but they are very substantially less than the deaths that, for example, they reported last year in April and May. Last year they reported 2,341 deaths in April and 547 in May.

In fact, if you take the three organizations which appear to have an interest or a leaning toward the left, they show for the first 5 months of this year a decline of 75 percent in deaths attributable to political violence. Seventy-five percent, Mr. Chairman, from 1981 to 1982, our own figures do not show such a strong decline. They show a decline of about 40 percent from 1981 to 1982.

Now all of these statistics are open to challenge, and I think our Embassy, which has been very close to them, feels that they should be used to indicate trends, and they should not be used as absolute totals. We don't know enough about this society for that.

I wanted to make that point right off, because I think that a lot of what has been said this afternoon would appear to pertain to a situation that may well have been the case a year or two ago, but is not now the case.

## AGRARIAN REFORM

I was interested to hear, for example, that no less than 50 percent of the land in El Salvador was controlled by 2 percent of the population. I think I heard that correctly. Now that may have been true in the past, but it is certainly not true now.

Indeed, under phase I of the land reform which has been discussed here, 15½ percent of El Salvador's farmland has been redistributed. There were 300 large farms that were redistributed and those large farms are now owned or will be owned when the process of titling is completed by over 30,000 people.

I should emphasize that there is no party in El Salvador which is proposing to undo that phase of the land reform, and that phase of the land reform is not under challenge.

Now while we are on land reform, let me deal with something called phase II. We heard arguments saying that this was the core of the land reform. Phase II dealt with the medium-sized farms, many of which were quite advanced and which formed the bulk of the export economy. There was indeed a proposal which was drafted by the Duarte government which would have called for the expropriation of these farms and their turnover to either the people that tilled them or to others.

That proposal was not implemented by the Duarte government that explicitly put it off. It did not renounce it, but put it off until much later. It was not backed by the United States at any point. It has now been explicitly set aside by the constituent assembly, but this is not the setting aside of a reform that was underway. This was a reform which was never born.

## PHASE III

On phase III, the land-to-the-tiller program that we have discussed so much in this body in the last month, I think it is quite clear that there was an attack launched on land reform and specifically phase III, the small plots that are to be turned over to renters and sharecroppers. But there was an attack on that land reform immediately after the installation of the constituent assembly.

A part of what the constituent assembly did is something that I think practically everybody in the United States would regard as sensible. Prior to that time it was impossible to rent agricultural land in El Salvador. It was impossible to rent it for the very good reason that if you did rent it and succeeded in getting a contract and got yourself on the land, you could then claim property ownership of it. As a result nobody who owned small plots of land would rent them out.

One consequence of that was that an economy already seriously threatened by the conflict, already seriously threatened by the damage done by the insurgents because the insurgents have targeted the economy, they have hit dams and bridges and pylons and power stations wherever they could. They have destroyed buses wherever they could and trucks. That is their main effort at the current time.

An economy already on the ropes was being hurt also by the fact that land could not be rented. It did not seem to very many people unreasonable that it should in fact be possible to say this is the outer limit of the reform that we are going to make, and we are going to carry that through.

But there is no doubt about the fact that in doing that a signal was sent, and there were other actions taken: Statements made that the land reform was to be suspended, statements made that it was going to be limited which sent a powerful signal through Salvadoran society that the reform was going to stop. I think there is no question about that at all. That happened in April.

Now as a result of that not only was there a sharp dropoff in the applications for land reform transfers, but much more importantly there was a wave of evictions. We do not know how many there were. I would be very dubious about any of the statistics which were cited in this regard, but there were a lot. I don't think there is any question about it.

## GOVERNMENT RESPONSE

Now since that time there has been a counterattack. What has this consisted of? Well, it has consisted of a number of things. First of all, the language of these ambiguous decrees that were passed in April which sent the powerful signal through the society, the language has been clarified, and it has been made absolutely clear that they do not remove the rights of those that either had claimed under the Land Reform Act or for any reason had not submitted their applications prior to the passage of the legislation.

It was clarified also in the sense that a publicity campaign designed to tell people of their rights and to encourage them to apply has now been started up. There was change in the sense that a publicity campaign was begun in order to tell people that if they have been evicted or subject to prejudicial action, that they can come and ask for help from the local commanders. Many have come and asked for help, and as far as we can tell, and we have reasonably good statistics on this because it goes through the government, that some 2,000 families have been put back on the land.

The process of issuing provisional titles has started up again, and some 4,200-odd I think is the exact number of titles have been issued since the end of April, that is to say in May and June. This compares with a total of 27,000 titles issued in the 2 previous years. That is to say, although it is not a higher rate, it is certainly at a comparable rate.

## COMPENSATION

Now, finally, the government has begun to pay compensation for the lands that have been expropriated. I think this is a particularly important point because it is quite clear that owners are going to resist, and resist more vigorously if, in fact, they are not going to see the possibility of being paid for the land that is being taken away from them.

I think one of the important things that can be done now in regard to the action that we take up here on land reform is to look again at the compensation question and ask ourselves whether in addition to making clear the kinds of effort that we expect to see taken in the land reform, we should not also at the same time see whether some of the funds that are provided by the United States in support of the El Salvador economy could not also be used, or at least their local currency proceeds, to make sure that owners are compensated. In my view, this would help expedite the process.

## THE DEMOCRATIC PROCESS

Now I would like to make a couple of comments about democracy in El Salvador. I myself find it very hard to think that there has not been some progress, quite substantial progress indeed. Three years ago we had a military government which used to vote itself in office periodically. It had been there for about 50 years.

In 1972, for example, there was an election and the election apparently registered about 1½ million votes cast. However, of those votes 50 percent, or I think 52, were blank. Some of them had been stuffed into the ballot box by the military and presumably some of them were also ballots that were put in there by disaffected citizens who were registering a protest by the only means they could protest.

This time around, Senator Leahy, there were blank ballots, too. Out of that 1.5 million, we are told by the Electoral Commission that 12 percent were blank or defaced or void in some form. In every election, particularly you would think in an election in a developing country, you are going to get defaced or damaged or blank ballots. You do in this country. But you have there a possible estimate, outside estimate, of what you have got in the way of a disaffected citizenry that did not want to participate in this election or was protesting that there was not a party that it could vote for that was active in the election.

After the election there were some very difficult negotiations among parties because no party had received a majority. But they managed to settle that, too, and get a government of national unity.

Now here is a people in a deeply divided society that has had a military dictatorship for all of this century that has nonetheless found a means to hold a national election with perhaps 80 percent participation, well above anything we see in this country, to get out of it no clear result, but a mixed result and then put together a national unity government, and take some first policy steps, some of which we didn't like. They have found that they can negotiate together.

I think that it is going to take them some time to learn all the arts of negotiation and comity that we have up here. They are going to make mistakes, but they have made a start.

## THE ARMED LEFT

I would like to say one thing, if I could though, about the left and then I will stop, Mr. Chairman, about the question of reconciliation. It seems to me you have to be clear about what you are talking about. It is one thing to say that because somebody has taken up a gun and shot up a bunch of buses or fired on an election, because one of the things we have got to remember about this election was not that the personal safety of the insurgents was not guaranteed in the election, but it was that the insurgents fired on the people who were voting and tried to kill the people who were voting. They could perfectly well have said well, the election, we are not in it, and it is not relevant. But they tried to kill the people who voted, a pretty definite difference.

It is one thing to be able to take up a gun, but it doesn't give you a right to be treated on the same basis, and you can negotiate for a share of power, a role in the government and then set the terms for any kind of election you want to hold.

## RECONCILIATION

But just as one would say that, and I think it is very clear, I think it is important to say the other side of that, too, and that is that given the fact that there are new political institutions being establshed, that it is up to this government that has now come in to hold out the hand of reconciliation, to find a way to make sure that there is an opportunity for its opponents to bring themselves into this political system and find a way in which a dialog can be started about how those that now oppose the government can be brought back into the system as participants.

Now we have had some good signs on this. We have heard a lot about the head of the constituent assembly today. He has been very strong himself on the need for opponents to come and participate in the political process on precisely this basis. His party, ARENA, has argued for it a number of times and the government is now preparing proposals on a basis on which that could be done.

Mr. Chairman, I appreciate the opportunity to make these observations.

## PREPARED STATEMENT

Senator KASTEN. Your statement will be inserted in the record at this point.

[The statement follows:]

## STATEMENT OF THOMAS O. ENDERS

1.

Let me see whether I can describe in a few words what we are trying to do in El Salvador.

We are helping Salvadorans -- who for almost all of this century have known only military governments -- to create truly democratic institutions, because that in the end is the only way a deeply divided society can learn to live with itself without violence.

We are helping Salvadorans to open property ownership to many of their countrymen, because that is the only way to bring social peace to a land-short country traditionally dominated by landlords.

We are helping Salvadorans to hold off the military challenge of insurgents backed by Cuba and Nicaragua, so that these reforms can have time to take hold -- and thereby prevent the insurgents from gaining the political support they seek.

And we are encouraging the Salvadoran government to find a way to hold out a hand of reconciliation to its adversaries -- because in the end the conflict can only have a political, not a military solution.

2.

The practice of democracy is just starting in El Salvador. The Constituent Assembly campaign was genuine but acrimonious. The country as a whole has shown remarkable resilience, but years of neglect and disuse of the judicial system continue to hinder efforts to safeguard individual rights and strengthen the rule of law.

Since the election, however, parties that have been bitter enemies for over a decade have begun to put democracy into practice for the first time. Denunciations were replaced by discussions, then by negotiations. The result was a compromise. A moderate was chosen to head a coalition government to serve the national interest. This step proved as difficult as the elections themselves. But once taken, it has held. Most of the political spectrum is now engaged in a peaceful process; it is open to those on the far left if they choose to join in competitive elections, the clear choice of the Salvadoran people.

This new democracy will make mistakes. The skills of negotiation and compromise, the need for comity, are all to be learned. But a start has been made, and should be further encouraged.

3.

The immediate test of El Salvador's nascent democracy is land reform.

Unlike just a few years ago, all parties now say they support land reform. The change reflects more than rhetoric. No longer do a few hundred families own the majority of all farm land. Since March 6, 1980, El Salvador's nearly 300 largest estates have been expropriated and turned into cooperatives. And additional plans and decrees have been developed, and in some cases partially implemented, to transform all land tenancy and agricultural production. Ongoing land reform affects virtually all aspects of life in El Salvador.

And that is the problem: the reforms have aroused grievances as well as opportunities. Few of the Salvadorans who have stuck it out to work in their own country despite the violence and uncertainty debate the merits -- or for that matter the permanence -- of the transfers of the large estates. But there is a great deal of controversy over the application of the reforms to medium and small plots, which in many cases represent the savings of the middle and lower middle classes and the successful peasantry. So all parties support land reform, but each wants its own version, and no party trusts the others' intentions.

Immediately after the election came an effort to weaken the land reforms and prevent further implementation: ambiguous legislation was passed, titling suspended, and a political signal sent through the country that the reform process was dead. Although we don't know how many there were, evictions surged.

Then came a counterattack: the government resumed provisional titling, distributed the first definitive titles, paid the first compensation on Phase III properties. Orders were issued to the departmental commanders to restore evicted tenants in each department. Over 4,000 provisional titles have been given out since the election, as against 27,000 the previous two years. The armed forces have restored more than 1,700 evicted tenants and their families to their land. And the government has begun a radio and press campaign urging all evicted reform beneficiaries to contact the land reform agency so that they can be returned to their land. All told, much more has been done recently to advance the reforms than is widely known here.

Compensation remains a particularly serious issue. It is not surprising that owners resist when they are not paid. The original decree gave it little attention and Salvadoran funds are short. Indeed U.S. law rules out assistance for compensation. Maybe we should look at this again as we debate our aid effort. Nothing would better assure completion of the reform than U.S. help in compensation -- something we have done in many other such situations.

I want to make this clear: the President will certify El Salvador for continued military assistance later this month only if all the Congressional requirements are fulfilled, and more specifically, only if there is strong evidence of progress in land reform: titles, protection against eviction, and compensation.

For the United States it is vital to make the agrarian reform work. Campesinos who have become landowners will be a strong bulwark against the guerrillas.

4.

The guerrilla response to the elections and to the formation of a national unity government is now clear. The guerrillas continue to receive large amounts of supplies from Nicaragua, and their headquarters and training grounds are located there. After a brief lull while the top guerrilla leaders met in Nicaragua to reassess their strategy, the FMLN has stepped up its campaign of violence and terrorism.

Remote Morazan Province last month saw some of the heaviest fighting of the war. The northern portions of this province have been a guerrilla stronghold for some months. The rugged terrain and the close proximity to insurgent supply lines from Nicaragua make Morazan an ideal staging base for the guerrillas. For nearly two years now, the guerrillas have been trying to turn Morazan into a "liberated area" to claim international recognition.

Once again, the guerrillas did not succeed. Fighting from heavily fortified fixed positions, the guerrilla forces expended vast amounts of munitions -- only to be forced to withdraw once again.

As you are aware, we have never had more than 57 U.S. military trainers and technicians in El Salvador. Only 21 are there now. Our military assistance programs have funded training, infantry weapons and ammunition, communications and mobility -- all at low technological levels when compared with other U.S. assistance efforts. Eighteen months ago, the Salvadoran Army could not operate in the field at battalion level. Yet as the Morazan battle developed, two complete U.S.-trained quick reaction battalions were deployed to the remote area along with elements of a third U.S.-trained battalion and other forces.

To be sure, this quick growth has its own set of operational problems of command and control, and we must help with solving them. There will be set-backs. But we have seen visible and important progress. The result could well be gains this year for the Salvadoran military --and for the legally maintained order that democratic progress requires.

5.

But military action, however necessary, is not enough. The aim of El Salvador's government must be reconciliation.

With their huge mandate behind them, democratic parties can afford to reach out to adversaries. ARENA leader D'Aubuisson has called for a dialogue with left factions affiliated with the guerrillas. Parties across the spectrum are in favor of an amnesty. President Magana has announced plans to establish a national commission to study these and other proposals for restoring peace.

These are all very positive signs. The important thing is to do them seriously. The amnesty must offer genuine security, with the participation of the Church and international organizations. The dialogue must involve listening as well as talking, giving an opportunity to adversaries to explain how they could participate in the new democratic institutions. The U.S. very much hopes the new government will act with speed and imagination in this area.

6.

El Salvador's progress towards democracy cannot succeed if the economy is in a shambles. The war has disrupted economic activity and destroyed productive capacity. Compounding this has been a steady decline in commodity export earnings resulting from soft prices and economic recession in major markets. Due to these factors, real GDP contracted by 9.5 percent in 1980 and again in 1981. Political uncertainty and lack of credit led gross fixed investment to decrease from 25 percent of GDP in 1978 to 14 percent in

1981. The government budget, meanwhile, has been severely strained by the military effort and by expenditures for emergency public works to reconstruct damage from the war and terrorist sabotage, to give emergency assistance to displaced persons, and to carry out land reform and other social actions necessary to strengthen the government's popular support. Capital flight has aggravated the country's worsening balance of payments position. Combined with a suspension of commercial credit, net international reserves declined by a cumulative $492 million during 1979-81.

Official projections call for a bottoming out of the output decline in 1982 as a result of increased coffee and sugar production and some revitalization of the industrial sector. Achievement of these goals will depend on the level of civil strife and the volume of external assistance. Even if GDP declines, however, the decline will be less than in the last two years. Assuming continued increases in agricultural output, continued recovery of commodity prices and continued substantial flows of external assistance, a slight upturn may take place in 1983.

Our economic assistance for El Salvador responds to these serious and unique needs. The major thrusts of our program will be: 1) reactivation of the economy; 2) employment generation and 3) support for reforms. For FY 1983, we are requesting $105 million in ESF. Much of the ESF will be channelled through the banking system to provide dollar and local currency credit to private sector production to permit operations as close to normal levels as possible during a wartime economy. This assistance will keep the Salvadoran people working at productive jobs and thereby give them the means to purchase food and shelter. Some assistance will be to the Salvadoran government to help defray the costs of emergency reconstruction and relief efforts.

Development assistance efforts, multilateral development bank loans, and the trade and investment provisions of the Caribbean Basin Initiative are vital to the longer term development of the Salvadoran economy. But during this period of economic disruption high levels of rapidly disbursing external assistance are also needed, often simply to meet the requirements for essential imports like seed, fertilizer and pesticides to sustain basic production in agriculture. Although we expect the need for some assistance of this kind to continue for a few years, we believe emergency needs are peaking during this fiscal year. Accordingly, our projections call for lesser reliance on ESF funds after FY 1982.

For FY 83 we are requesting $61.3 million in military assistance: $60 million in FMS credits and $1.3 million in training. This is actually below the level of military assistance we have provided thus far in FY 82, which has totalled $81 million, including $55 million in drawdowns under the President's 506 authority, $25 million in FMS and MAP, and $1 million in IMET. This assistance will not be gobbled up by a few pieces of sophisticated, high-technology weaponry; it will be used for the basic, day-to-day supplies needed to fight an infantry war -- small arms, ammunition, helicopters, vehicles, and communications and engineering equipment to outfit additional infantry and support battalions as part of the GOES force expansion program. We also plan to add to El Salvador's small fleet of coastal patrol craft, as part of the continuing effort to interdict external flows of ammunition and arms supplies to the guerrillas.

For FY 82, we are requesting $35 million in MAP for El Salvador as part of the military assistance supplemental. The fighting in Morazan gave proof of the efficacy in combat of the three U.S.-trained rapid reaction battalions; it also demonstrated significant improvements in relations with the civilian population. We propose to use this $35 million of supplemental assistance to train and equip a fourth rapid reaction battalion, to enhance the command and control system of the Salvadoran armed forces, to upgrade logistics and other support units, and to purchase additional patrol boats.

8.

Our supplemental request for economic assistance to El Salvador -- $128 million for FY 82 not repeated in FY 83 -- is part of an integrated program, the Caribbean Basin Initiative. No country in the region can be treated in isolation. Should the economic or political situation deteriorate further in El Salvador, all the countries of Central America would suffer economically and politically as the image of regional instability grew. And all of Central America would find it more difficult to borrow in international markets because banks would see not just a Salvadoran risk but a "Central American Risk."

El Salvador's neigbors and associates in the Central American Democratic Community, Costa Rica and Honduras, recognize the importance to their own countries of restoring in El Salvador political and economic stability and security from guerrilla attacks. Costa Rican President Monge noted the interrelated security and economic concerns of democratic Central America during his U.S. visit last month and Honduran President Suazo, who is visiting the U.S. this week, has just witnessed how terrorist operations easily spill across borders in the tragic attack upon Honduras' electrical power system.

In dealing with its neighbors in Central America and the Caribbean, the United States has displayed a historic tendency to swing from an extreme of neglect and inaction on the one hand, to one of direct intervention on the other. The basic challenge we face, in the rest of the region as in El Salvador, is to identify and sustain a responsible middle course that avoids these abrupt and often unfortunate changes of direction. The Caribbean Basin Initiative sets precisely this course: a long-term commitment that protects vital American interests, associates the United States with the goals and aspirations of the peoples of the region, and promotes orderly progress.

9.

To conclude, our assistance is vital to El Salvador's future. Last year the Congress with the support of this committee, set goals for our policy in El Salvador:

-- Progress towards respect for human rights;

-- Control of all elements of the armed forces;

-- Continuing land reform;

-- Holding of elections, with a view to an ultimate political solution.

The Administration agrees completely with these goals.

El Salvador's new Government of National Unity is making clear its commitment to carry forward the democratic process and the economic and land reforms now underway, and to curb abuses of official authority. President Magana in a July 1 speech to the Constituent Assembly set forth the goals of his administration as: pacification, democratization, confidence and security, economic recovery, economic and social reforms, and human rights. These are goals we can identify with proudly.

But we cannot expect political and land reforms to survive with the economy in ruins. We cannot expect the killing to end without a democratic process as an alternative to violence. And we cannot expect a government to carry out and protect land reforms and a democratic process unless it has the means to defend them.

So the time has come for us, on our part, to make good our side of the bargain.

### BAN ON U.S. AID FOR COMPENSATION

Senator KASTEN. Thank you very much.

You suggested in your statement and also in your oral testimony that we should look into changing the current law that prohibits U.S. assistance from going to compensate land expropriated under the land reform program.

What specific changes would you suggest? You are assuming that you would allow some kind of assistance. What kind of assistance would that be, and what would be the total cost of the changes that you may suggest?

Mr. ENDERS. Well, I don't have a specific proposal to make myself. I would note, Mr. Chairman, that the House Foreign Affairs Committee has voted on an authorization for the Caribbean Basin Initiative. It has reached a bipartisan compromise, which I believe commanded a very substantial majority.

That suggests that of the $100 million that is allocated to El Salvador in the compromise proposal that some $20 million, or rather the local currency proceeds from $20 million, could be under certain conditions allocated to assist a compensation for land reform. The conditions I think refer in particular to the desire to carry through the reform and to make sure that the property titles that come out of that are ones that are clear and simple, and that ordinary agricultural land transactions can subsequently take place.

That, it seems to me, is the kind of thing that we ought to look at seriously.

### PLO-GUERRILLA TIES

Senator KASTEN. Roughly 2 weeks ago in testimony before our subcommittee, the American Israel Public Affairs Committee asserted that they had evidence, I guess through the State of Israel or Israeli intelligence, that the PLO was very active in the terrorist and the guerrilla activity in El Salvador and in other areas of Central America. Does the State Department have any concrete evidence of such activity, and have you been able to determine any such links through the various terrorists networks?

Mr. ENDERS. I can't tell you for certain as regards to El Salvador. As regards to Nicaragua, Mr. Chairman, there is a substantial PLO presence there, and one that provides both training and to some degree material assistance to Nicaragua. Whether they are in fact involved in the headquarters command and control elements of the Salvadoran insurgents which are in Managua is something I cannot say and exclude it.

### GUERRILLA STRENGTH

Senator KASTEN. What is your current estimate of the strength of the guerrilla forces in El Salvador, both in terms of the military capability and effectiveness? I would also be interested in your estimate of the support the guerrilla forces now have among the people of El Salvador.

Mr. ENDERS. The full-time guerrillas we believe number approximately 5,000. We have been carrying the same estimate of them now for 2 years, and the numbers are approximately flat. There are part-time and support troops which go along with this in our estimates. We have been refining our methods to look at this as closely as we can, and we feel reasonably confident of the results of this. They receive support primarily from Nicaragua and have their headquarters there. We believe that that support continues at substantial levels after the elections and, indeed, the material that is going in may be very substantial from Nicaragua at the present time.

The armament and the maneuverability of these forces has improved. We see company level operations more frequently now than we did 2 years ago. On the other hand, it is quite clear that these troops are not making any general progress. You will recall that in January 1981 they attempted in the final offensive a general uprising that failed. They attempted this year to prevent the country from voting. That failed. They have now attempted a major action in Morazan Province on the hilly area on the Honduran border, an area which government troops have seldom been able to operate in or really have not at all been able to operate in since the war. They did get some early success a month ago against territorial units, and then they were defeated and forced to disperse by the main force units of the army. They are not going anywhere, Mr. Chairman. They are not gaining. They have not disappeared.

But I must say that without the sense of direction, I think the issue for the Salvadoran army and indeed the issue for us is whether we are prepared to sustain the effort so that this guerrilla force which is now capable of disrupting life in some degree in El Salvador can be reduced gradually to the kind of guerrilla movement that you have seen in other parts of Central America and South America, smaller or closer to bandit size. I don't expect that this will happen at any early point, but they are certainly not gaining strength.

Senator KASTEN. You talked about gaining strength. How would you express it in terms of the territory they control? Do they control more or less territory than, let's say a year ago; and of the territory that is under their control, do they control that territory absolutely, or is it less in their control?

Mr. ENDERS. It is very hard to give you a statement in those terms because there have never been any liberated areas. There have been attempts at liberated areas, small towns that have been captured and declared as liberated. They have never been held for very long.

There are areas in which the insurgents operate. We think that they are not terribly different now than they were before, and we suspect that as these current funds are spent for training and equipment of intervention battalions we see an improvement in the command and control of the Salvadoran army. It was basically a territorial army 2 years ago designed more for political and administrative purposes than for military purposes. The insurgent force will become less strong still, provided, Mr. Chairman, that we do not see an upping of the aid from outside, from Cuba and Nicaragua. But at current levels of support I don't think that there is going to be a major improvement on the part of the insurgents.

Senator KASTEN. Senator Leahy.

### DEATHS ON ELECTION DAY CAUSED BY THE GUERRILLAS

Senator LEAHY. Mr. Secretary, you referred to the attempts to kill those who voted on March 28. How many people were killed on the day of the election?

Mr. ENDERS. I can't tell you. I think it would be very hard to find out.

Senator LEAHY. Do we have reports of anybody being killed?

Mr. ENDERS. Well, our own election observers reported some.

Senator LEAHY. Reports of deaths?

Mr. ENDERS. We would be glad, for example, to give you a report of Father Ted Hesburgh.

Senator LEAHY. I talked to Father Hesburgh.

Mr. ENDERS. In one of these towns in Morazan near the Honduran border he talked in Spanish to a large number of people who were coming in, and he was surprised at the numbers that came in. They reported killings on the way in, and he gave last rites to one person anyway that had been killed shortly before he arrived. There are other materials of this kind, but we will be glad to give you what we have.

[The information follows:]

During the week of the election between March 27 and April 2, political violence claimed the lives of 72 noncombatants. The parties responsible for the majority of these deaths could not be ascertained. However, the local press did attribute 13 of these deaths to the guerrillas.

## DEATHS OF LEFTIST LEADERS

Senator LEAHY. Do we have reports of leadership of any of the central left parties being killed prior to the election, some of those who might have been candidates in the election?

Mr. ENDERS. Yes; the head of the national conciliation party was assassinated at the start of the campaign.

Senator LEAHY. Were a number taken out of a meeting that they were in I believe in a schoolhouse or something of that nature, taken out and they killed a number of those who were potential candidates in the last campaign, in the last elections?

Mr. ENDERS. I am sorry. Do any of my associates recognize this incident? Yes; that was an earlier one.

Senator LEAHY. Would this kind of thing discourage some people on the left from running in an election? I don't mean the ones who were killed but the ones that might be left afterward. I don't mean that quite as facetiously as it sounds, Mr. Secretary.

Mr. ENDERS. Senator Leahy, you know, given the fact that, for example, the head of the national conciliation party was assassinated immediately at the start of the campaign by persons unknown, a lot of people up here asked, and, in fact, I remember being in a hearing with Senator Dodd, and he said that it is obvious, you know, that nobody can have an election under this and nobody will participate under this kind of condition. I remember it very well.

But in point of fact, I guess there are some very tough people. We saw Jose Napoleon Duarte, under considerable personal threat throughout this, continuing the campaign. In fact, a large number of them campaigned in front of the people openly at obviously considerable personal risk. It was a very vigorous campaign you will recall by different parties. It was also I think a fairly acrimonious campaign which makes it all the more important that they were able to put together a government of national unity.

Senator LEAHY. I recall President Duarte telling me something to the effect that his ability to campaign was limited somewhat, and he did not seem to feel that he had quite the protection that Mr. D'Aubuisson had from some of the army units who were providing protection, but also I am well aware of the fact that Mr. D'Aubuisson, that somebody took a shot at him, too, during the campaign.

Mr. ENDERS. Yes; he was wounded.

## SECURITY FOR LEFTIST CANDIDATES

Senator LEAHY. I don't question the bravery of those who went out and campaigned either from the centralist parties or the right-wing parties. I am just wondering if you have any feeling that at some point the killings of potential candidates, to what extent that may have discouraged or actually blocked some who might have been in this election process?

Mr. ENDERS. Well, I don't know, Senator. The Election Commission and the parties in the government proposed to the opposition parties that were not participating that they have talks on how they might participate. We ourselves offered to be of assistance in that if, in fact, there was some difficulty or question, or if we could make arrangements, or that we could help address the issues. Various proposals were made, you will recall, by Jose Napoleon Duarte. He said, well, you know, if you don't think you can campaign personally, would you be willing to campaign through the media because, you know, there are newspapers and television and radio readily available in El Salvador? Would you do that? That apparently wasn't to be done either.

Our offers to facilitate participation in the elections by addressing these security provisions and the question of how you get a fair count and all the kinds of questions you would ask about the election were not taken up.

But, as I say, I think the important thing here, Senator, is not that the left wasn't able to get the guarantees that somehow the parties of the center or the right or the center left, because that is really where the Christian Democrats are, but they didn't want to and indeed attacked the process. That is different.

### INCLUSION OF MURDERED AMERICAN CITIZENS IN CERTIFICATION

Senator LEAHY. Let me go on to another area, and if we have time perhaps we can come back to this before we finish this evening. President Reagan will be certifying to the Congress whether El Salvador has made an effort to comply with internationally recognized human rights and will be doing that later this month. The House passed, I believe 399 to 1, a measure to include in that certification when it comes that they report on progress in the murders of the four American churchwomen and other slain American citizens.

Mr. ENDERS. Our two land reform workers.

Senator LEAHY. I beg your pardon?

Mr. ENDERS. Our two land reform workers.

Senator LEAHY. Yes; does the State Department support this inclusion in the certification?

Mr. ENDERS. Well, we were going to report on it in any case, Senator, and we would be glad to certify on it.

Senator LEAHY. So you do support having that included in the certification?

Mr. ENDERS. Yes; would it be useful for me to say a word about these two cases here?

### THE CASE OF THE MURDERED AMERICAN CHURCHWOMEN

Senator LEAHY. Well, let me ask you this and maybe we can be specific on it. The nuns were killed in December 1980. Some people were arrested, as I recall, about the time that I was down there. What date has been set for their trial?

Mr. ENDERS. It has not been set yet. This is the status. The special commission appointed by the government completed its work and, as you recall, the FBI and the Embassy were very closely involved in this in early February. They came to the conclusion that six guardsmen had been responsible for the murders and they amassed very substantial evidence to that effect. The material was handed over to Salvadoran judges, and the six men were turned over to the Salvadoran courts.

Now under Salvadoran law, and I guess in fact it would be under our law, too, when you have a special investigatory body of this kind, then their prosecuting attorney or instruction judge, as they call it, has to redo all the interviews, and the judge has in the intervening 5 months interviewed all of the persons that were interviewed by the special commission, and I think he is just at the end of that process. There is about I think another week of interviews, and then he will have completed that.

The judge has been in touch with us on this, and he has also made comments to a number of journalists to the effect that he has been able to confirm very much the kinds of testimony, the case that had been brought forward by the special commission.

We expect that it will take some time for him to pull that all together. We think that a date for the trial will be set some time in August, and a trial will follow after that presumably during the fall.

Senator LEAHY. So would it be safe to say that if we maintain these 6-month certifications that we have asked the White House for that prior to the next certification, the December 1, 1982 or the January 1, 1983, that we will be able to have some reference to what has happened in these trials?

Mr. ENDERS. Well, I cannot predict to you when the trial will end or what its result will be because, Senator, one of the things——

Senator LEAHY. They don't have a history of very lengthy trials in El Salvador. So that is why I asked.

Mr. ENDERS. Well, one of the things that happened in this country always with a creaky system of justice is that in 1980 when the old order was overthrown there was an explosion of violence on both the left and the right. Since that time the court system has been practically inoperative, I think it is fair to say. It is only just showing some signs now of being revived. I mean there were murders of politicians during this time, some of which were cited here earlier today. This spring really for the first time had arrests of people who were charged with that, and the beginnings of a normal justice process on it.

But our objective is to get the Salvadorans to use their legal system, not to go out and lynch somebody, but to use their legal system to do justice in regard to our citizens, our murdered churchwomen. The purpose is to get them to do it and not to do it ourselves.

Senator LEAHY. We have no way of doing it ourselves anyway. I mean they are the ones that would have to do it. They are the ones who have the jurisdiction in the country.

Mr. ENDERS. Yes; but to do it through a legal system and to do it through a process of law so that justice can be done in an institutional manner and not by somebody reacting against people who are charged with the deaths.

## THE CASE OF THE TWO MURDERED LABOR ADVISERS

Similarly with the land reform workers, Hammer and Perlman, the same commission appointed by the government has now been assigned to that case, and it has been working very actively on it. I don't want to say anything more about that other than to say that they have made progress, and we are encouraged by this, and for the first time since those murders we are definitely more encouraged.

## FAMILIES' REQUEST FOR DOCUMENTS

Senator LEAHY. I understand that the the families of the murdered churchwomen have not been allowed to see information on this case in spite of filing petitions with the Freedom of Information Act. I guess there were some unclassified cables sent to the State Department that have now been classified as confidential; is that correct?

Mr. ENDERS. We have made available very substantial numbers of documents to the families directly on this and continue to review others. We have made available all of these documents to Chairman Michael Barnes of the House Inter-American Affairs Subcommittee for his perusal, but we have not responded to all of the freedom of information requests involved because we fear in a number of cases, and we will so justify under the suit, that to do so would prejudice the successful conclusion of the trial underway.

Senator LEAHY. Then would all that material be made available once the trial was over?

Mr. ENDERS. Yes; with no question.

## MURDER OF CHRISTIAN DEMOCRATIC MAYORS

Senator LEAHY. The murders of the mayors, and you know the ones I refer to, the several mayors who were murdered shortly after the election. Have any arrests been made in those?

Mr. ENDERS. Arrests have been made in those.

Senator LEAHY. Who were arrested? Did they have any particular alliances?

Mr. ENDERS. They were I believe national guardsmen, but let me check on that. They were territorial units and not national guardsmen.

Senator LEAHY. Those are not guerrillas though? Are they allied with the government?

Mr. ENDERS. No; they are not. They are territorial units employed by the local governments.

Senator LEAHY. And they killed the local mayors?

Mr. ENDERS. Charged with and have been arrested for.

Senator LEAHY. Charged with killing? I am sorry.

Mr. Chairman, I have a number of questions, but I am going into Senator DeConcini's time so I will hold off, and I will do them the next round.

Senator KASTEN. Senator DeConcini.

## THIRD COUNTRY SECURITY ASSISTANCE TO EL SALVADOR

Senator DeConcini. Thank you, Mr. Chairman, and I will be brief and defer to my colleague who has visited there. I have great respect for his keen sense of what he witnessed there.

Mr. Secretary, can you give us a little background of what other nations in the Southern Hemisphere are involved today with military assistance to the central government. I know Venezuela was. Can you tell us who else and what magnitude of assistance that is?

Mr. Enders. Venezuela is and was, but Venezuela's primary effort in El Salvador is on the economic side.

Senator DeConcini. What does that amount to roughly?

Mr. Enders. I will have to give you the figures. Venezuela gives to El Salvador aid in two forms. One, one-half of the oil imported by El Salvador is subject to the Mexican/Venezuelan oil facility, which means that one-third or precisely 30 percent of it is subject to credit rather than to payment. In addition to that, there are a number of development projects, as well as central bank deposits. It is quite substantial altogether, but I will have to supply that.

Senator DeConcini. Would you supply that to us, please?

Mr. Enders. Yes.

Senator DeConcini. And can you also give us the military breakdown of what their assistance is, if you know?

Mr. Enders. Yes.

[The information follows:]

Over $100 million in assistance will be provided to El Salvador by other countries this year. Among the donors are Venezuela, Mexico, Argentina, and several European nations. More specifically:

Venezuela has provided some economic credits as well as technical assistance to help the Salvadorans in the agrarian reform and public administration areas.

Mexico, together with Venezuela, have extended an oil facility to El Salvador, each supplying 7,000 barrels per day, meeting 50 percent of El Salvador's petroleum requirements under generous credit terms.

Argentina has provided $50 million in credits.

We do not have detailed information on the amounts of security assistance provided to El Salvador by other nations. El Salvador has traditionally had military assistance relationships with several Latin American countries. We assume that modest training and liaison programs still exist.

## OTHER NATIONS GIVING AID

Senator DeConcini. Now are there other nations that have given substantial economic or military aid, either/or?

Mr. Enders. Well, a number of other countries, Argentina, for example, have given substantial economic aid in the form of central bank deposits and also in the form of trade credits. Mexico, the other one-half of that oil facility I spoke of, has given substantial aid to El Salvador.

Senator DeConcini. On the credit side again?

Mr. Enders. I beg your pardon?

Senator DeConcini. By the credit side?

Mr. Enders. The credit side, and international institutions, the Inter-American Development Bank, the IMF and the IBRD have been very substantial donors.

Senator DECONCINI. Have any of these nations sent any advisers, military advisers, to your knowledge?

### ARGENTINE AID TO EL SALVADOR

Mr. ENDERS. No; not in a proper sense of the word.

Senator DECONCINI. Has Argentina ever sent any military advisers of any type?

Mr. ENDERS. There have been, as I understand it, Argentine officers there on individual missions, but no country, to my knowledge, has sent military advisers in the sense that word is customarily used here; that is to say, persons that go out on patrol or engage in combat.

Senator DECONCINI. Do we have any idea of how many Argentines have been sent there?

Mr. ENDERS. Not substantial numbers, very small numbers, a handful and not, as I say, in any operational capacity and not for very long periods of time.

Senator DECONCINI. Do you know if any of their expertise in antiterrorism experts were sent?

Mr. ENDERS. I can't tell you that, Senator.

Senator DECONCINI. Is that because you don't know or because it is classified?

Mr. ENDERS. I do not know whether any of the persons who were sent there by Argentina on any of the visits had previous counterterrorism experiences.

Senator DECONCINI. I am just inquiring.

Mr. ENDERS. I can't say for certain. Could I make a comment here which is relevant perhaps to some of the comments that were made earlier?

It was noted earlier in testimony, Mr. Chairman, that there were similarities between Afghanistan and El Salvador and between Vietnam and El Salvador. I would like to make clear that we do not have any advisers in the country in the normal military sense. We do have trainers there. Their number as of yesterday was 21. We have 21 military trainers in the country, which compares with 85,000 Soviet troops in Afghanistan. I myself don't see the comparison.

Senator DECONCINI. Well, Mr. Secretary, I am not making any representations that there is any comparison, but I appreciate your point, and I think it is a founded one that certainly there ought to be no comparison at all in my opinion as to the involvement of us in El Salvador versus the Soviet Union in Afghanistan. I am glad you made that point so the record will be helpful in my explaining to some of my constituents why I have continued to support the administration's position in El Salvador over the popular objection in at least the State of Arizona.

I think a lot of it is due to the fact of not very sound information coming forward as to what is being done, particularly in the area that Senator Leahy was in as to these trials and what kind of a justice system is proceeding, if any, as to some of the violations that obviously have occurred down there on either side of the political spectrum.

## HUMAN RIGHTS IMPROVEMENTS

I don't know if there is anything that can be done to improve that dissemination of the handling of those cases, but it certainly has not been demonstrated, at least in my State, that there has been any great improvement in El Salvador versus human rights or prosecution of whoever might be charged and bring it to some kind of termination.

Do you foresee a better climate to disseminate such information, and how do you think it is going to occur?

Mr. ENDERS. With regard to that, Senator, I think there has been a major improvement, and I cited earlier some of the statistics by some of the left affiliated organizations that show it very clearly. I think there has been a major improvement in the number of deaths attributable to political violence. But what there has not been an improvement in so far is the operation of the legal system. For example, a large number of officers and men, some 1,000 we believe all told, have been national guardsmen, Army men, and national policemen who have been charged with crimes or violations of the law, but very few of them so far have been brought to justice. Now they have been taken out, and they have been put in prison often, but the justice system is not carrying it through and that has got to be the next stage.

We have got to find some way to help them get back and make their legal system operate. That is the kind of thing that is essential to a democratic society. That hasn't happened yet. It is just beginning. I think the churchwomen's case is not only important to us, but it is important to them because hopefully it will be an example of what can be done. There are a lot of things we have to overcome in order to get there.

## MEMBERS OF THE FIRST JUNTA

Senator DECONCINI. Mr. Secretary, the junta which took over in October 1979 included a number of individuals who are no longer around, at least around in the sense of being part of the junta and operating the government, such as Hector Dada and Ruben Zamora, just to mention a couple. Do you know and do we know what has happened to some of these individuals? Have they joined the guerrilla movement or have they left the country?

Mr. ENDERS. Ruben Zamora is on the political wing of the insurgents, for example. Colonel Majano, whose name was mentioned here earlier as a progressive officer is now I guess an independent is perhaps the best way to describe it.

Senator DECONCINI. Where is he functioning now, Majano?

Mr. ENDERS. I believe in Mexico.

Senator DECONCINI. He is supporting the——

Mr. ENDERS. He is against the current government, he is also against the insurgents, and he is in favor of a third alternative.

Senator DECONCINI. Was he against the Duarte government when it was in?

Mr. ENDERS. Yes; he was.

Senator DECONCINI. And now he is against the new central government?

Mr. ENDERS. Yes.

Senator DECONCINI. Thank you.

Mr. Chairman, I have no further questions at this time. I may submit some.

Senator KASTEN. Thank you, Senator.

Senator Leahy, do you have further questions that you would like to address at this time?

### D'AUBUISSON'S VISA

Senator LEAHY. I do. Thank you, Mr. Chairman.

Going back to Roberto D'Aubuisson, he had a visa to the United States which was revoked a while ago—a couple of years ago or more. Can you tell me what the official classification was he received when his visa was revoked?

Mr. ENDERS. I have it somewhere here, under which provision of law it was. It was 212(a)(27), which is I guess against the national interests criterion. It is a catch-all criterion. I can't remember my consular law all that well, but I believe that is right.

Senator LEAHY. If I told you the State Department deemed him to be dangerous to the "welfare, safety, and security" of the United States, would that seem out of line as their reason for revoking his visa?

Mr. ENDERS. I would have to look back to find out exactly what terminology was used in that.

Senator LEAHY. Could you, please, and let us know.

Mr. ENDERS. I would be glad to.

[The information follows:]

Section 212(a)(27) of the Immigration and Nationality Act excludes aliens who "seek to enter the United States * * * to engage in activities which would be prejudicial to the public interest, or endanger the welfare, safety, or security of the United States."

The Embassy recommended and the Department of State concurred with revocation of Mr. D'Aubuisson's visa on these grounds.

### REVOKING D'AUBUISSON'S VISA

Senator LEAHY. Would that surprise you if that was their reading?

Mr. ENDERS. Well, Major D'Aubuisson had at the time been suspected of having made statements hostile to the United States or threats against the American Embassy at the time. You may recall also that subsequently Major D'Aubuisson made a statement which would have appeared to be a call for a coup in El Salvador. So undoubtedly these were factors which were involved in it.

Senator LEAHY. In fact subsequent to that time, I mean you talk about comments he made about the United States prior to that time, subsequently has he been connected to an armed attack, a shooting attack in March 1981 on the U.S. Embassy in San Salvador?

Mr. ENDERS. There was an accusation to that effect, a suspicion to that effect. We cannot say for certain.

Senator LEAHY. Well, did he not claim credit for it?

Mr. ENDERS. Not to my knowledge.

Senator LEAHY. Did our Chargé d'Affaires say "this incident has all the earmarks of a D'Aubuisson operation?"

Mr. ENDERS. I believe he did, but that is an allegation that to our knowledge has not been substantiated.

Senator LEAHY. But Major D'Aubuisson did not in any way claim credit for it?

Mr. ENDERS. No; Senator, perhaps it would be useful for me to comment a little further on this. Whatever the past, and there is controversy about the past, when the possibility of a democratic election appeared, Major D'Aubuisson founded a party and campaigned according to the rules that had been agreed on. When the government was formed afterward he negotiated with the other parties and his party participated in that.

We have taken a view on this, not that we wish to make any particular statement in favor or against any of the political leaders in El Salvador, but we have taken the view that it would be perfectly normal for members of the El Salvador Government, leaders of parties or principal political figures to be able to come to the United States at some point. So we have taken a different view than the one that was earlier put there because of the democratic transformation which has occurred and the role of the leader of the ARENA party in it.

Senator LEAHY. Was this a new policy of the United States that if somebody gets elected then we will let bygones be bygones, or is it a selective one depending upon what the country is and what the regime is? Does it make a difference whether it is authoritarian, totalitarian, dictatorship or whatever?

Mr. ENDERS. We feel that we should deal with democratically elected leaders certainly throughout the hemisphere. We always have.

### REVOCATION OF D'AUBUISSON'S VISA

Senator LEAHY. Has there been a decision to change his visa status?

Mr. ENDERS. Yes; that was announced some time ago. No application has been made, but we see no reason why he and any other leader democratically elected shouldn't come here at some point.

Senator LEAHY. Did he enter this country illegally in 1980?

Mr. ENDERS. I can't answer that.

Senator LEAHY. Because you don't know?

Mr. ENDERS. Let me ask my colleagues. Senator, I am told that when Major D'Aubuisson's visa was revoked he did come up, he did enter the country, he was informed that his visa had been revoked and left.

Senator LEAHY. My report that I have here, and you can correct me if this is wrong, is that he entered the United States through a Key West airport, and he was listed on the INS lookout book as a person dangerous to the welfare, safety, and security of the United States, and that the American Legion and the American Security Council offered him a press conference five blocks from the Capitol, and then he turned himself in and left.

Mr. ENDERS. Apparently Major D'Aubuisson had his earlier visa in his passport. He may or may not, it is not clear, have been aware that the visa had been revoked. When a visa is revoked somebody goes automatically in the lookout book.

Senator LEAHY. Did he express whether he knew whether it was revoked or not, to your knowledge?

Mr. ENDERS. Frankly, I don't have that here, but I will be glad to supply it to you.

Senator LEAHY. Could you have somebody give me the record as you know it?

Mr. ENDERS. We will look at the records. I wasn't around here at that point.

[The information follows:]

Apparently Mr. D'Aubuisson was not in El Salvador when his visa was revoked, so the Embassy was not able to physically cancel the visa, nor inform him of the reasons for revocation. According to Mr. D'Aubuisson, he was not officially informed of the revocation until July 2, 1980, during a conversation with Washington INS officials. Mr. D'Aubuisson subsequently departed the United States voluntarily.

### THREATS TO CHARGÉ D'AFFAIRES

Senator LEAHY. Thank you.

Is it true that he threatened the Chargé d'Affaires of our Embassy in San Salvador on Salvadoran television, a Mr. James Cheek?

Mr. ENDERS. I will have to supply the answer to that, Senator. I can't remember exactly in terms of that incident.

[The information follows:]

During a television appearance he did denounce Deputy Assistant Secretary of State Cheek as an enemy of the people. His threat was indirect.

### D'AUBUISSON'S AND TERRORIST ORGANIZATIONS

Senator LEAHY. Has he been associated with paramilitary terrorist organizations?

Mr. ENDERS. That allegation has been made.

Senator LEAHY. Do you know whether he has or not? I know the allegation has been made, but I am asking whether he has to your knowledge?

Mr. ENDERS. I don't believe that the information at our disposal would be such as to give you a definitive answer on that.

Senator LEAHY. Has been listed as a founder of the white warriors army?

Mr. ENDERS. I will have to give you that, too. I am sorry.

[The information follows:]

I know of no conclusive evidence regarding Mr. D'Aubuisson's ties with that organization. However, D'Aubuisson was allegedly an early admirer of General "Chele" Medrano the founder of the rightist para-military organization known as the white warriors union.

## POLITICAL PRISONERS

Senator LEAHY. Now it was talked about earlier that the President will renew his certification in order to continue U.S. assistance to El Salvador, and apparently the President is expected to renew his certification regarding human rights there. I note that on April 22 of this year the Department of State notified the committee of its intention to reprogram $7 million within the migration and refugee assistance appropriation "to address increased needs for refugee assistance in Latin America."

The notification letter specifically stated that the Department of State "intends to contribute $1.8 million to the program of the International Committee of the Red Cross for displaced persons and political prisoners in El Salvador." How many political prisoners are there in El Salvador?

Mr. ENDERS. I think there are something on the order of 500 persons who might fit our classifications of that.

Senator LEAHY. On January 28, President Reagan certified that the government of El Salvador was making a concerted and significant effort to comply with internationally recognized human rights. If that is so why do we have to work through an international organization to secure the rights of political prisoners in El Salvador? Wouldn't that be something we would expect them to be doing?

Mr. ENDERS. Well, the disposition of those prisoners I should say is now under discussion in El Salvador as to what is the best thing that can be done for them and the government has been looking at a number of possible options. I think it is encouraging, Senator, that in fact they have been looking at those options and whether the person should be allowed or encouraged to leave the country. Others of them are accused of common crimes as well as possible political crimes and their status is less clear, but that is an item which is now under discussion.

Perhaps it would be helpful for me to remark, Senator, that we certainly did not mean in our earlier determinations on this and would not now mean if there were another determination certification for El Salvador that there are no human rights violations in El Salvador, and I certainly don't suggest that we were saying that. We were not saying that.

## CERTIFICATION

Senator LEAHY. But you do anticipate that there will be another certification this month?

Mr. ENDERS. The decision has not been made.

Senator LEAHY. So that if the decision—well, I won't even ask you to guess what decision might be made, but let me make sure I am correct on this. If no certification is made then our whole hearing sort of becomes a moot point because then no money goes down; is that correct?

Mr. ENDERS. Well, the certification requirement is such that unless there is a certification by July 28 then military assistance is suspended. But, you know, there are the four and now five again headings under which a determination must be made, and it is sort of a quasi-judicial proceeding that is mandated by the law. So that you have to collect evidence and weigh the sides, and that is what we are in the process of doing now.

### REPAYMENT OF FMS CREDITS

Senator LEAHY. I notice your request for military assistance includes more funds for FMS credits, and I ask whether the American taxpayer can ever expect to see these loans repaid? The reason I ask that is that Senator Kasten expressed a real concern earlier this year. He proposed legislation which prohibits any funds to be paid from the Treasury or any Government corporation to uphold any loan guarantees or agreements to a nation in arrears unless the borrowing country has been declared in default.

Now the GAO says that El Salvador is in default on its FMS guaranteed loans. I am not going to try to speak for Senator Kasten, who carefully thought out his proposed legislation and will probably want to pursue it on his own, but it raises in my own mind the debt problems facing many of our aid recipient countries. I wonder, do you think these will ever be repaid?

Mr. ENDERS. El Salvador is a country that had until the insurgency a very good record of debt repayment. It was a country that had an external balance that was quite favorable, substantial exports, and a very low debt ratio. It has been forced to take on a substantial amount of debt in the course of the insurgency.

I think it is quite clear that when you have insurgents who are attacking your economy and your exportability and destroying part of it and you are in effect fighting a war on 14 or 15 percent loans that you have got a problem, Senator.

### CAPITAL FLIGHT FROM EL SALVADOR

Senator LEAHY. And also if you have a pretty significant capital flight that seems to be engineered in some instances by some people who are feathering their own nests, and who are not just doing it out of a sense of loyalty and patriotism toward El Salvador.

Mr. ENDERS. Well, you have had, and I don't think the capital flight continues to any significant degree, but you have had a substantial capital flight.

Senator LEAHY. There is not an awful lot of capital left to flee.

Mr. ENDERS. There is not very much any more that is leaving. I think you have got a problem with this kind of loan for an insurgency. I think that we should be honest about that. The amount in which, nonetheless, in spite of all these difficulties, the amount of arrearages for El Salvador is small. It is $1.6 million, and we have been assured that this will be made good by the Salvadoran Government. I think it would be frankly not good policy, Senator, for us to try to put too much of the military or other assistance into high interest rate loans. I think it should be under grant or low interest rate loans.

Senator LEAHY. I would come back to this, but I am reminded by our chairman and by the staff that we have a vote of some interest to you involving a Mr. Shultz who is up for confirmation. I suspect with or without us there he would be confirmed, but I intend to vote for him, and I would like to go over and vote for him.

Senator KASTEN. Well, I would like to conclude then the hearing before we go to vote.

Senator LEAHY. Well, I have more questions.

Senator KASTEN. I would ask that you submit those questions in writing.

Senator LEAHY. I will be happy to do that, but they will probably delay things a bit because some of my questions will be based on what the answers are to the questions I will ask.

Senator KASTEN. I am unable to continue. The Secretary has been here for 3 hours. First of all, I would like to thank you, Mr. Secretary——

Senator LEAHY. Well, the taxpayers of the United States, I would point out, are being asked to come up with a third to a half a billion dollars and that is a pretty good hourly rate. I think we have a duty to them, to the taxpayers of Wisconsin and Vermont and everywhere else in making sure that money is being well spent.

Senator KASTEN. There will be opportunities to ask this witness and other witnesses further questions.

I am unable to continue this hearing.

Senator LEAHY. There will be opportunities prior to the vote on this matter?

Senator KASTEN. Either in writing or in person.

### SUBMITTED QUESTIONS

Senator LEAHY. Fine. Then with the chairman's assurances that my questions will all be answered prior to the time we vote on this, I have no objection.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

## ADDITIONAL COMMITTEE QUESTIONS

Senator Leahy: How is compensation of former owners being financed?

Mr. Enders: The Government of El Salvador makes compensation to former landowners in cash, from the government's budget, and in interest bearing bonds. Over the long term, the government will be repaid through thirty year mortgages assumed by the new owners who have gained title to land under the agrarian reform program. As of the end of June, 1982, compensation totaled $77.7 million. Of this figure, $6.4 million was in cash payments, and $71.3 million was in agrarian reform bonds.

Senator Leahy: What specifically have these funds been used for?

Mr. Enders: U.S. funds finance services for the small farmers who gain land under the reform program. The largest assistance component is in loans for production credit. More than $29 million (60%) of our assistance is channelled through the national agricultural development bank for loans to small farmers. The rest of our support is used to provide extension services in areas such as organization and management, improved agricultual techniques, and the use of credit.

Senator Leahy: What is the total level of United States support for the land reform program?

Mr. Enders: The United States Government has provided $47.45 million to support agrarian reform since the program was initiated in 1980. Within this figure, $39.85 million is in loans and $7.6 million is in grants.

Senator Leahy: What is the Government of El Salvador's ability to finance the reform?

Mr. Enders: The government is experiencing great difficulty in financing agrarian reform. Revenues are down because of the country's general economic decline. At the same time the government must bear the extraordinary costs of a military campaign, and the constant repair of insurgent sabotage. Funds are short for all activities in the public budget. Because of these problems, the previous administration made no debt service payments on the agrarian reform bonds. The new government has budgeted $32 million for compensation, including $17 million for cash payments and $15 million for interest due on bonds. At the same tine, the government is struggling to maintain credit and extension services to support the reform. However, money from external sources is urgently needed to satisfy the reform program's financial requirements.

Senator Leahy: You mentioned that the Government of El Salvador has budgeted $32 million for compensation, is that for 1982? What portion of that amount will the government actually be able to spend on compensation? How much will be needed to meet the 1983 cash payments and interest due on bonds?

According to the recently released impact audit on land reform published by OXFAM America, the total cost of the agrarian reform is roughly $1 billion. Given El Salvador's economic situation, what would be the level of U.S. assistance needed to insure the successful functioning of the land reform program?

Ambassador Enders: Yes, the figure of $32 million for compensation is for the balance of 1982. Unless there are major unforseen demands on the government's budget, we consider it likely that the government will be able to meet this requirement.

The Salvadoran Government has not yet made a projection of compensation costs for 1983. This will be done when the 1983 budget is completed in December of this year. Since the U.S. Government is presently prohibited by law from making funds available for compensation or planning for compensation, we have not developed an estimate for next year either.

Unofficial sources suggest that about $40 million would be required for compensation in 1983. This estimate projects $15 million for cash payments to former owners under Phase III of the reform, and a total requirement of $25 million for interest payments for both Phase I and Phase III bonds. The estimate assumes that most cash payments for Phase I claims will be claimed by the end of 1982, and that arrearages and current payments on Phase I bonds are brought up to date.

El Salvador's economy is particularily depressed by the extrordinary costs of civil strife. When the violence ends, it is reasonable to expect El Salvador to regain its previous agricultural and industrial export performance. Also, the end of violence should encourage greater participation of other donors and private investors.

The level of U.S. assistance will be based upon the strength of El Salvador's economy and its needs for external support. This is true for the agrarian reform program as well. Over the long term, the reform is expected to be self financing with the government bearing the initial costs of compensation and credit, but with the new small farmer owners repaying the government through 30 year morgages for their land, and repaying government backed loans for credit. Over the next four years, we project U.S. assistance for agriculture at $30-$35 million per year.

The OXFAM America estimate that the total lifetime cost of the agrarian reform is roughly $1 billion is not unreasonable. With economic recovery and a healthy agricultural sector, repayments and tax revenues should cover the costs of the reform program.

Senator Leahy: A report in the June 28 New York Times describes a Salvadoran Government audit of the financing of the reforms. The audit charges that "the land redistribution program is so poorly run as to raise questions of impropriety and corruption." The audit alleges that funds are diverted to private farms, the military and high government officials. How do you respond to these charges?

Mr. Enders: The criticism in the New York Times article is much stronger than the language in the draft report of the Salvadoran Corte de Cuentas, a government agency which has review responsibilities similar to those of the U.S.

General Accounting Office. The *Times* article refers to an audit being conducted on some of the activities of ISTA, the agency in charge of Phase I of the agrarian reform. Questions are being raised on the records for about $720,000 of Salvadoran money. The portion of the audit which deals with U.S. funds is still underway.

I regard the work of the *Corte de Cuentas* as a positive example of Salvadoran efforts to keep track of money, including funds from donors such as the U.S. Agency for International Development (A.I.D.). If corruption or bad judgment is uncovered through this audit or any other investigation, appropriate action will be taken.

Senator Leahy: You mention that the portion of the audit which deals with U.S. funds is still underway. When do you expect to receive it? I would appreciate having a copy of this report for my own review. In light of this ongoing audit, and recent charges made by the new President of the land redistribution agency that $6 million in ISTA funds have disappeared, has AID of the State Department conducted its own independent investigation?

Ambassador Enders: Our office in San Salvador was unable to provide us with an expected completion date for the ongoing audit of U.S. funds which have been channeled through ISTA. We do expect to be able to obtain a date from the *Corte de Cuentas* auditors during the next few days and we will inform your office. We will, of course, be happy to forward a copy of the audit report to you when we have it. I will gladly give you a copy of that portion of the audit which has been completed.

Up to this time, we have not conducted our own independent audit of ISTA. This is due mainly to two factors: first, ISTA has been a relatively small recipient of AID funds ($6 million out of almost $50 million in the land reform program) and second, we have had no reason to believe there has been any misuse of funds. We will await the completion of the current audit and take those steps indicated by the findings.

Senator Leahy: Is it possible that the corruption and diversion of funds is so great that AID funds actually serve to further entrench the inequities in the rural economy which the land reform is intended to eliminate?

Mr. Enders: No, the overall record shows that agrarian reform is moving forward, and that administrative shortcomings and the possibility of corruption are being reduced. In fact, part of AID's program provides technical assistance and training to Salvadoran organizations to improve their efficiency and ability to account for funds.

The Government of El Salvador knows that AID does tolerate misuse of U.S. funds. Our loan and grant agreements specify tight control of funds and restitution to AID it monies are misused. Our projects are subject to audit by AID's Inspector General and by the General Accounting Office. The largest component in AID's assistance for agrarian reform is loans for production credit. This credit program was audited by AID in 1981. Our audit report,

> issued last December, contained six procedural and technical recommendations, all of which have now been satisfied. There were no findings of corruption or inadequate accountability in the management of credit.

Senator Leahy: You state that "the overall record shows that agrarian reform is moving forward, and that administrative shortcomings and the possibility of corruption are being reduced." Yet the new president of the land reform agency is quoted as saying that the agrarian reform record so far has been "totally negative." Apparently he also charges that the land reform agency has been marred with corruption and mismanagement. Although you state that AID is providing assistance and training to improve the Agency's efficiency and ability to account for funds, the new president asserts that the land reform agency had " no internal or external auditing systems" and that " there was no control over expenditures" according to the New York Times July 24, 1982.

Is there substance to the assertions made by Mr. Argueta, the newly appointed president?

Ambassador Enders: It would appear that the substance of Dr. Argueta's press conference was not fully or completely accurately reported in the July 24 New York Times article. According to local coverage of the press conference provided by our embassy:

> "The president of ISTA, was quoted as saying 'now, yes, the agrarian reform will continue and will be consolidated, but in a technical, non-political manner, to assist the cooperatives and to pay the former owners.' He pointed out that within the first two months his administration will have granted 12 titles to 8,795 beneficiaries compared to only six titles granted in the previous two years.
>
> Dr. Argueta said that his objectives are to utilize ISTA's technical capacity to assure the participation of the cooperatives in the agricultural production process and to strengthen the cooperatives. He plans to install a system of financial controls that will assure the prudent use of funds and private sector participation in providing technical assistance to the cooperatives. He will encourage greater participation of youth in the reform process, clarify legal problems for both cooperatives and former owners, stimulate the development of agro-industry, diversify agricultural production and stress social benefits such as health, education and rural housing. He said that ISTA could count on assistance from the Ministry of Agriculture and other government agencies.
>
> There are a number of problems that will have to be overcome if the objectives of the reform are to be accomplished. Dr. Argueta stated that he has made a diagnosis of the situation in ISTA and the press conference was called to inform the Salvadoran people of the real agrarian reform situation. The problems identified include:
>
> (A) Agrarian reform cooperatives had more than approximately $30.0 million dollars in overdue loans of which $6.0 million are uncollectable.

> (B) According to Argueta, since inception of the reform in 1980, ISTA has not had an internal audit department. For this reason he requested the establishment of a permanent, special commission from the court of accounts (similar to the GAO) to audit the use of all funds since 1980. This commission is now working.
>
> (C) The control and management of the funds used in agrarian reform implementation and those used by the cooperatives has not been adequate. This is attributable to inadequate management and accounting system of cooperatives, inadequate co-management service to the cooperatives by ISTA, lack of proper orientation and staff training and some corruption on the part of co-managers.
>
> (D) There have been serious delays in granting land titles to the cooperatives.
>
> (E) The funds available to ISTA are inadequate to meet agrarian reform cash compensation and debt service requirements.
>
> (F) There has been some corruption in the marketing of the production of the cooperatives during the past 2-1/2 years.
>
> (G) In some cases cooperatives have utilized credit funds for purposes other than intended (example: using annual production credit to purchase livestock (medium term).
>
> (H) ISTA has a excess of personnel and provides inadequate logistic support for reform implementation."

While it dwells on the negative and does not mention ISTA's accomplishments, we would agree that the above description of Dr. Argueta's press conference is a fair assessment of some of the administrative and management problems faced by ISTA. It should be noted that ISTA was ill-prepared to take on the burden of Phase I at the inception of the program in March 1980. Also, it has not enjoyed strong leadership, skilled management, or an adequate budget in the intervening period. Nevertheless, under great difficulties, ISTA was able to launch the program and keep it moving forward albeit slowly. There have been allegations of corruption within ISTA both before and after the October 15, 1979 revolution. Since March of 1980, most of these allegations have concerned the co-management and purchasing and marketing aspects of the process at the farm level. There also have been a few allegations of corruption by members of boards of directors of the cooperatives themselves. It is not known to what extent these allegations have led to formal charges and court or other actions.

The New York Times article states that $6.0 million have "disappeared" and that the cooperatives are $30.0 million in arears on their obligations. We cannot confirm the exact figures but our understanding is that the $6.0 million amount has not "disappeared" but is that part of the loan obligation that is considered "uncollectable", as stated in the press conference.

It should be pointed out that the sudden implementation of Phase I in March 1980 had the effect of severing the traditional credit relationships that existed between former owners and the banks.

Also, Phase I began at the start of the planting season. There was great concern that the new cooperatives would not have sufficient production credit to plant, cultivate and harvest that year's crops. Consequently, an emergency credit program was mounted by ISTA, the Central Bank, and the Agricultural Development Bank. ISTA was ill prepared administratively for this role. This credit was put out on an emergency basis and in some cases burdened new cooperatives with too much credit. ISTA would not have an adequate accounting system and this type of operation.

While precise figures are difficult to ascertain, the loan repayment records of the Phase I cooperatives has been mixed. Approximately one-third have shown a profit; about one-third have broken even; and the remaining one-third have shown losses. Within this latter category, over 20 cooperatives have been abandoned due to violence. This has exacerbated the repayment problem and probably partially explains the "uncollectable" problem as well. Also the Government has taken measures to refinance some of the unpaid first year credit loans to the cooperatives.

In summary, while Dr. Argueta has pointed to some real and troublesome problems within Phase I, we believe that the tenor of his press conference is positive and indicates a desire to move the program forward but with improved management and accountability. We will support his efforts to do so.

Senator Leahy: Since the last Presidential Certification in March what trends have you seen in the two phases of the land reform for which implementation has begun? (I and III)

Mr. Enders: March 28 was the date of the Salvadoran Constituent Assembly election, which resulted in a change in government. The April-May period was a time of turmoil and little progress. Elements in the Constituent Assembly seized upon the agrarian reform program's genuine shortcomings to pass legislation which intially cast doubt on the program's future and contributed to a surge of illegal evictions. Also, the organizations charged with implementing the reform were at a standstill, awaiting instructions from the new government.

Implementation of the program has resumed, and the trend is again one of progress. The new government, with the full cooperation of the Salvadoran military, has taken clear steps to move the reform forward. Phase I has been movong ahead smoothly, with 287 farmer cooperatives organized and functioning. Some 15 percent of the country's farmland has been taken over in Phase I, and seven percent of the rural population now lives and works on these farms. Under Phase III, 32,080 titles to land have been issued to small farmers. Included in this figure are the 4,865 titles issued since March.

Senator Leahy: You mention that "elements in the Constituent Assembly" worked to pass legislation which contributed to a surge of illegal evictions. What parties were most active in this effort? Have the leaders of this effort now changed their view on the land reform program? You also mention that 287 farmer cooperatives are organized and functioning as part of the Phase I program. How many of these cooperatives actually have title to the land?

Ambassador Enders: The elements in the Constituent Assembly which worked to pass the ambiguous legislation were those who have the most to lose from land reform, those associated with the landed oligarchy, or those representing former owners who have not received and doubt if they will ever receive compensation for their land. There are also those who oppose the land reform from an ideological point of view and fear that it is leading their country to socialism. All parties have stated their support of agrarian reform. They disagree, however, over the means for implementing it.

As of July 16, seven cooperatives had received title to their land. However, ISTA, the land reform agency responsible for administering Phase I including titling the cooperatives, was reportedly in the final stages of completing documentation necessary to transfer property titles to ten additional Phase 1 cooperatives. In a July 22 press conference the new President of ISTA identified serious delays in titling as one of the problem areas that ISTA is commited to addressing: to dramatize his point, he declared that within the first two months his administration will have granted twelve titles compared to only six titles granted in the previous two years.

With 117 landlords affected by Phase I compensated as of the end of June, it would appear that much of the necessary preliminary work has been completed and that ISTA should be able to accelerate its titling, subject to institutional constraints of personnel and procedures.

Senator Leahy: Do these trends suggest any possibility that the major redistribution intended by the land reform will be accomplished in the initial five-year period intended by its design?

Mr. Enders: I am not sure that a specific time period was ever set for completion of the reform program. The Government of El Salvador views the reform as a continuing process, and sets annual targets for each year's work. For Phase I, the taking of land is largely completed. Major remaining tasks are to complete payments to former owners, and to continue efforts to improve the operation and management of the farmer cooperatives established on the land claimed by the reform. Phase III is a much different operation, involving greater numbers of farmers and former owners. It has taken more than two years to issue provisional titles to about 30,000 small farmers. The Salvadoran government has not yet made an estimate of the time needed to complete this phase of the reform.

Senator Leahy: How are Decrees 3 and 6, passed by the new Constituent Assembly, expected to affect the future implementation of the land reform?

Mr. Enders: In many quarters, the initial reaction to these Decrees was that the reform was being halted or even reversed. However, now that the two decrees have been clarified, they do not appear to threaten long-term implementation of the reform.

Senator Leahy: Can a government which has abrogated the legislative basis for expropriating land said to be "making progress in the implementation of agrarian reform"?

Mr. Enders: The land reform program is functioning effectively despite the passage in May of Decree 6, which modified Decree 207, the legislative basis for the Land-to-the-Tiller program. Decree 6 does not suspend the reform. As interpreted by the Assembly itself and the government, it allows landowners to rent those lands which have not been rented previously out of fear that the prospective renters would then be able to make application for title as tenants. The bill is designed to make unused land more productive. Campesino rights to the land as beneficiaries or potential beneficiaries remain intact. Almost 5,000 provisional titles have been issued since the March elections. Almost 2,000 evicted farmers and their families have been returned to their land by the Salvadoran armed forces. The Government has made a strong effort through radio broadcasts and press advertisements to locate other peasants who have suffered eviction. Clearly the reform process is moving ahead.

Senator Leahy: You mention that getting a moderate chosen to head the coalition government "proved as difficult as the elections themselves," Why do you say that? Could you describe the process by which Magana was selected and elected?

Mr. Enders: In recent years Salvadoran politics have been characterized by fragmentation and bitterness. Many of these key divisions were represented by the parties competing in the March election. The election campaign was hotly contested and was often characterized by bitter personal attacks. However, the results of the free and fair election have provided El Salvador with a unique opportunity to begin the process of reconciliation. The five parties which won seats in the Constituent Assembly are now committed to working together in a Government of National Unity. The naming of Alvaro Magana as provisional President took place after a month of difficult negotiations among the parties. Despite a history of division, in the end a respected moderate, acceptable to all sides, was chosen.

Senator Leahy: President Magana has been named provisional president, as you indicate. Is there a date set yet for the election of a permanent president? Do you agree with Ambassador Hinton that Magana will be in office "for a couple of years", according to a recent press conference given by the Ambassador?

Ambassador Enders: The Constituent Assembly's main task is the drafting of a new constitution, which will include ground rules and a date for presidential elections. We expect that the presidential elections will be set for late 1983 or early 1984.

Senator Leahy: You mention the war and the recent fighting in Morazan Province. So that I understand the fighting situation, how many bombs were dropped in that engagement? What types of planes were employed? What were the casualty estimates?

Mr. Enders: The fighting in Morazan was some of the fiercest in recent months. Although most of the fighting appears to have been low-technology infantry combat, HU1H helicopters, A-37B "Dragon Fly" and O-2A aircraft were employed. The number of casualties is also unknown. One report mentions about 100 casualties, while another mentions approximately 220.

Senator Leahy: Your request for military assistance includes more funds for FMS credits. Yet, given the economic crisis facing El Salvador, is this wise? Can the American taxpayer expect to see those loans repayed? Senator Kasten expressed a real concern earlier this year when he proposed legislation which prohibited any funds to be paid from the treasury or any government copooration to uphold any loan guarantees or agreements unless the borrowing country has been declared in default. I note from a recent GAO study that El Salvador is in default on its FMS guaranteed loans. Senator Kasten might want to pursue this issue with you further but this particular situation clearly raised questions in my own mind about the debt problems facing many of our aid recipient countries.

Mr. Enders: El Salvador's arrearages amount to $1.6 million, on FY 80, 81, and 82 FMS guaranteed loans. The Salvadoran Government has assured us that the necessary payment will be made in the near future. We are of course well aware of El Salvador's severe economic and balance of payments problems (stemming in large part from the insurgency) and for that reason are requesting that the $35 million in military assistance for El Salvador in the FY 1982 supplemental request be in the form of MAP grants. Our FY 1983 request for El Salvador is mainly for low-interest FMS direct loans, which would place much less of a repayment burden on El Salvador than high-interest guaranteed loans.

Senator Leahy: Mr. Secretary you have claimed that there is progress on land reform, and you have implied that there is also progress in the human rights area. Yet I see that two of the most conservative members of the House--long time supporters of the President, have just come back from a fact-finding trip to El Salvador. Congressman Mickey Edwards states: "In terms of land reform and human rights, my impression is that there has been no progress."

He also concludes that on the issue of evictions, that "the majority of peole who were evicted, remain evicted." Your comments please. Why would these two conservative Congressmen now question their support for your aid requests?

Mr. Enders: Your question might be better addressed by the two Congressman to whom you refer, who visited El Salvador several weeks ago at the height of the uncertainty over the direction of the land reform process. Much of that uncertainty, including an attempted partial reversal,has since been cleared up. Our own view is that the land reform program has problems, but is again back on track. Since the March 28 elections, 4,865 provisional titles to Phase III parcels have been issued. In the last few weeks 1,995 evicted Decree 207 beneficiaries have been reinstalled on their land by agrarian reform officials working in cooperation with armed forces.

Senator Leahy: Have all of these 1,995 former evicted farmers been allowed to stay on their land? Have there been any repeat evictions?

Ambassador Enders: There have been individual complaints of reevictions lodged by campesino organizations with Salvadoran government agencies. We do not, however, have actual numbers on reevictions. It is difficult to determine given the illegal character of the acts involved.

The difficulties of enforcement of the land reform laws specifically in this case of stopping reevictions, are increased by the character of organization of the Salvadoran military. Control of the local security forces, part-time units called defensa civil, by the regular army has been traditionally loose. The chain of command is at best diluted by the time it reaches the leadership of these local security contigents.

The recent report of the Commission on Agrarian Reform established by President Magana to improve the quality of implementation of the Phase III program did, however, stipulate the requirement of the Government of El Salvador establishing institutional means for dealing more effectively and rapidly with such problems as evictions and reevictions through regular, administrative grievance procedures, as well as a heightened role for the regular army on enforcement of land reform laws in Salvadoran local communities.

Senator Leahy: On May 5, UPI reported that Interim President Alvaro Magana said that "an improvement in the human rights situation in El Salvador would be obtained through the defeat of the rebel." Is this consistent with our human rights policy and what does it augur for the possibility of a dialogue process developing with opposition or disaffected sectors of Salvadoran society?

Mr. Enders: In a speech before the Constituent Assembly on July 1 President Magana again appealed to the guerrillas to end their attacks. "In my Government", he said " there is no room for hate retributions or recriminations, but neither will there be tolerance for destructive forces..." The Government of National Unity has announced plans to establish a national commission to study various amnesty proposals. I believe that this attitude is congruent with our views on the proper course of the new government: namely, a continuation of efforts to control the guerrillas while providing opportunities for those who would join the peaceful political process to do so.

Senator Leahy: Is the quote that I mentioned by President Magana on May 5 an accurate representation of his statement?

You mention that President Magana has announced plans for a national commission. When will this commission be established? When will it issue policy recommendations? Would the Constituent Assembly be required to act on these recommendations?

Ambassador Enders: Yes, this quote is an accurate representation of President Magana's statement. A proposal for the Commission on Peace is being discussed among the parties represented in the Government of National Unity. They have not yet agreed on a final version. It is unclear whether the Constituent Assembly would be required to act on the Commission recommendations.

Senator Leahy: In May 1981, Senator Hatfield wrote to the Secretary of State, expressing concern over the issuing of a "death list" by the Salvadoran Armed Forces. The list included names of persons who would likely be involved in a political solution or dialogue process in El Salvador. All the persons on the list were described by the Armed Forces communique as "traitors" to be "relentlessly pursued." Do you know if this list has been withdrawn or revised by the Salvdoran Armed Forces since the elections: (If not, would not such a gesture encourage a climate of reconciliation in the post-electoral period?)

Mr. Enders: As far as we know, the list has not been withdrawn or revised. Such a retraction could well serve to further the process of reconciliation recently initiated in El Salvador.

In this regard, I understand that the Salvadoran government has been considering a general pacification and amnesty program for the guerrillas. The GOES has always maintained that it willing to reintegrate dissident leftist politicians back into the democratic process, and President Magana has addressed the need to develop a dialogue with guerrilla elements who want to enter the political process.

Senator Leahy: You state that the government of El Salvador has always maintained that it (is) willing to reintegrate dissident leftist politicians back into the democratic process. How long has this been the policy? Have any former civilian junta members or any political leaders been able to rejoin the political process?

What guarantees of security would a dissident leftist politician have if he returned to El Salvador?

Ambassador Enders: Former President Duarte and Central Elections Commission President Bustamante as early as last fall invited the parties allied with the guerrillas to participate in the Constituent Assembly election. They refused to do so or even to discuss how they could have participated with security guarantees.

Security guarantees could be negotiated between the left and the government. We believe the Government has a comprehensive program currently under review to deal with this issue.

Senator Leahy: On May 24 the New York Times reported that "in terms of a more equitable distribution of the country's wealth and income, the second phase was the most important element of the Agrarian reform program." What did former President Duarte, General Gutierrez, and other architects of Phases I and II have in mind when they conceived of these parts of the Agrarian reform? How was the Agrarian reform to be related to the other economic reforms?

Mr. Enders: El Salvador's agrarian reform was designed to address basic inequities in the traditional land ownership system of that over-populated country. The idea was not only to more evenly distribute income by shifting the ownership of land, but also to broaden the social, economic, and political base of the country. In order for such a broadening to take place, total income also had to be increased, i.e. agricultural production levels had to be protected. Consequently the banking and export reforms were enacted simultaneously to provide the government with greater control of basic agricultural exports and assure availability of credit in support of the land reform. After Phase I had been implemented, Phase II was delayed when Duarte and other government officials concluded that the economic crisis already gripping the country could not stand the shock of the likely temporary drop in production caused by the transfer of these coffee growing lands.

Senator Leahy: You state that the banking reforms were enacted to assure availability of credit in support of the land reform. What had been the problems associated with access to rural credit before this reform? How did the banking reform propose to meet these problems? If these reforms were needed, why did Secretary Shultz say, in his confirmation hearings before the Senate Foreign Relations hearings, that "we could do without" the banking reform, and "if we don't have that reform, I would put that down as a plus, not a minus.?"

Ambassador Enders: In El Salvador, the wealth of the banks prior to the banking reform program was highly concentrated in the hands of a relatively few private individuals. The result of this situation was a limited availability of credit for small farmers. The banking reform adapted on March 7, 1980 proposed to alleviate the problem by mandating Government ownership of 51 percent of the stock in all banks.

Secretary Shultz's comments during the confirmation hearings before the Senate Foeign Relations Committee reflect a broad economic philosophy. We believe that generally economic policy in Central America suffers from excessive government control of the economy. The preferred method is general liberalization and fostering of private sector development.

Senator Leahy: In a June meeting organized by Salvadoran business sectors, a document was released which accuses the Christian Democratic Party of El Salvador as responsible for the economic crisis and judicial chaos that the country is experiencing. These business sectors list the attacks of the guerrillas and the international economic crisis only after first holding the Christian

Democrats responsible. This meeting, headed by the National Association of Private Enterprise (ANEP) also outlined the negative effects of the agrarian reform. What is the meaning of this meeting with respect to the continued implementation of the reforms? What influence does this group have on the Magana-D'Aubuisson government?

Mr. Enders: Individual Salvadoran business sector organizations have on occasion blamed the Christian Democratic Party for El Salvador's the economic crisis. Some businessmen within groups like ANEP also have opposed the agrarian reform process. They are legitimate participants in the Salvadoran political process, but their voices alone do not determine government policy. President Magana, the Salvadoran government, and the Armed forces are dedicated to the success of the reforms. Constituent Assembly President Roberto D'Aubuisson has also pledged that agrarian reform will continue. Progress is continuing to be made.

Senator Leahy: Secretary Enders, you say that there have been efforts to weaken the land reforms and prevent further implementation. Who is behind these efforts? What is the opposition to reform? In general, what are the economic goals of these opposition groups? I note, for example, a piece in the Wall Street Journal of June 25, 1982, by the editor of El Diario de Hoy saying, "... Now for the first time, many Salvadorans are openly asking whether to continue complying with the United States imposed course of conduct--which in two years has totally bankrupted the country--whether to save the economy by rejecting the reforms..." If this is the attitude of some significant part of the business community, and if the funds in the CBI are earmarked for these businessmen, what are the implications for the reform process that you feel is so important?

Mr. Enders: The vast majority of Salvadorans, including the business community, strongly support the reform process. This support is particularly strong among the younger members of the private business sector who have stayed in the country despite the upheaval and violence of recent years in order to rebuild Salvadoran society. It is true there are some ultra-conservatives in El Salvador would like to see the clock turned back on the land reform process and the oligarchy returned to power. One source of personal resistance to the agrarian reform has been has been the slow pace of compensation for Phase I and the absence of payments in Phase III. Now that compensation has begun to be paid, resentment may ease somewhat. As in other areas, continued U.S. assistance is vital to the many adjustments required to facilitate the development of a more open and productive economy in El Salvador.

Senator Leahy: You state that some "ultra-conservatives" in El Salvador would like to see the oligarchy returned to power. What political party are these ultra-conservatives associated with? Have any of these ultra-conservatives attacked Ambassador Hinton's support of the reform process?

Ambassador Enders: There are certainly elements in the Party of National Conciliation (PCN) and ARENA which in the past have been associated with the oligarchy. Some of them have been quite vocal in their opposition to what they perceive as American interference in their internal affairs and infringement of Salvadoran sovereignty. This opposition has at times focused on Ambassador Hinton.

Senator Leahy: According to an April 25th New York Times article, General Garcia, the Minister of Defense denied that bodies were being left in dumping grounds in the San Salvador area. Later, under insistence from the United States Embassy, Garcia said that such an investigation was being carried out. However, later questioning indicated that no such investigations were being carried out. This incident is reminiscent of Garcia's behavior in relation to the investigation of the four women's death. According to Time magazine, General Garcia promised to send out an all-points alert when the women were reported missing, but then did nothing to fulfill that promise to United States officials. What confidence can we have that General Garcia is the kind of military leader whose conduct sets an example for professional military behavior in a time of war?

Mr. Enders: General Garcia has sent direct orders to his field commanders that they will be held personally responsible for the abuses of authority committed by their subordinates. The Department, as you are well aware, is monitoring the human rights situation in El Salvador and will be making a complete report to Congress on July 28.

With respect to the investigation of the four slain US churchwomen, it is true that inordinate delays occured in what was a complex investigation in which U.S. technical assistance was critical. General Garcia himself, however, was instrumental in the creation of a special comission to collect evidence on the case. Unlike earlier investigations, the commission succeeded in gathering enough evidence to turn the case over to a civilian judge and a trial date will likely be set for sometime in the near future. As Minister of Defense, General Garcia has attempted to make the Salvadoran Armed Forces more professional under difficult circumstances. He is highly regarded by his colleagues. We are confident that he understands the severe damage done to the military as an institution by abuses by elements of the security forces.

Senator Leahy: Do you feel that the April 25 article is an accurate description of General Garcia's actions?

You state that General Garcia is highly regarded by his colleagues and that he understands the severe damage done to the military as an institution by abuses by elements of the security forces. Do you believe that this reflects a major transformation for General Garcia in light of the assessment made earlier this year by his colleague, former junta member Col. Adolfo Majano:

> Top people in the government are responsible for forming and encouraging criminal bands. The government covers this up and frustrates any effort to bring these men to justice. The two leading military men in El Salvador today, Gutierrez and Garcia, are guilty of these acts. (Boston Globe, January 17, 1982)

Ambassador Enders: We do not agree with Col. Majano's characterization of General Garcia. We have no evidence to suggest that General Garcia is responsible for the formation and encouragement of criminal bands.

Senator Leahy: In his May 2 homily as well as in other homilies Bishop Rivera y Damas referred to "indiscriminate repression in the cleanup operations by the military". Can you tell us more about this problem, why it persists, and what instructions the Military High Command is giving to soldiers before they embark on such operations? Have the commanders of operations in which such abuses occurred been charged and disciplined?

Mr. Enders: In the May 2 homily you cite, Rivera y Damas also said that executions, attacks, subversion and eviction of peasants from their lands done by guerrillas should stop. We agree with Rivera y Damas in opposing violent abuses of all kinds -- from official, unofficial and anti-official sources.

Official abuses exist and persist in part because there is in an endemic lack of restraint El Salvador toward employment of violence, a traditional cultural factor made even more difficult to contain by the pressures of battle. Human rights problems have been exacerbated by deliberate guerrilla tactics, such as forceful temporary occupation of populated areas, resulting in deaths of non-combatants. The near collapse of the judicial system further complicates the situation.

In spite of such obstacles, Salvadoran authorities have acted to impose effective institutional constraints against abuses. The present military code of conduct obligates members of the armed forces to respect the human rights of others and to exhaust all pacific means before using force. Minister of Defense Garcia has issued written instructions to all military personnel stating that violators of the military code of conduct will be disciplined.

Since October 1979 when El Salvador embarked on a program of reform, over 1000 military and civil defense force personnel have been disciplined or dismissed for abuses of authority and turned over to civilian courts for prosecution. Since the beginning of this year 47 members of the security forces have been arrested for violent abuses.

In addition to urging the Salvadoran authorities to do everything within their power to halt abuses, we have provided Salvadoran troops and officers undergoing training in the U.S. instruction in such topics as the treatment of captured combatants and the protection of non-combatants in countering guerrilla warfare.

Senator Leahy: The International Press has frequently reported the finding of decapitated or mutilated bodies in El Salvador, often attributing the killings to death squads. The *Washington Post* recently reported on a cable that had been sent by Washington to the United States Embassy regarding the certification process. In that cable, the Secretary of State calls for the United States Ambassador to urge the Salvadoran Military to develop a rights program that would prevent abuses at the village level by "security forces, civil defense personnel or 'death squads.'" This cable implies that the Armed Forces High Command is in a position to curtail activities by the death squads. What exactly is the relationship between the Salvadoran Armed Forces and the death squads? Has there been a thorough, independent investigation into allegations that Constituent Assembly President Roberto D'Aubuisson has ties to these paramilitary groups?

Mr. Enders: Our objective is to end all forms of abuses from all sources. The military High Command has pledged to end abuses and has repeatedly conveyed orders and guidelines to that end. The High Command cannot be held responsible for all the actions of private, rightist terrorist organizations. But it does have the responsibility to set a good example and do all within its power to end lawlessness. It is a fact that reports of torture and execution of prisoners and the participation of individual members of the security forces in right-wing terrorist activity continue, and in some cases are credible. This is particularly true at lower levels of the military and civil defense. Civil defense units, which are normally recruited from and paid by local villagers rather than by the central government, provide security in the more remote rural cantons. They have also been a principal source of institutional violence. The government's efforts to deal with this are hampered by the poor state of communication with far-flung units, dispersed authority among the various branches of the Armed Forces, and the independence of action of local civil defense units in remote areas of the country. The military has taken serious steps to bring the civil defense forces under tighter control and to punish abuse of power. A May 31 Armed Forces announcement soliciting public denuciations of "delinquent crimes", touched off a series of disciplinary actions against civil defense personnel throughout the country. In at least

12 cases, some of them preceding the May 31 announcement, local commanders accused of abuses have been replaced and civil defense members removed from service or jailed.

I know of no investigation which has turned up conclusive evidence of Mr. D'Aubuisson's ties with death squads. He was once widely believed to be associated with paramilitary activities, and was arrested in May 1980 in connection with an alleged coup plot. Since his release, allegedly for lack of evidence, his activities have been increasingly political.

Senator Leahy: You say that there are cases of torture and execution of prisoners by members of the security forces in right wing terrorist organizations and that these human rights abuses are found primarily at the lower levels of the military and in rural areas. Thus, the human rights problem is presented as really a question of command and control.

Yet, I am stuck by recent reports that a volunteer for the Salvadoran Green Cross was taken to Police headquarters in the capital city of San Salvador, held without legal cause, and tortured on three separate occasions. This is not a case of lower level police units in rural areas.

To get a clearer picture of this event, I pose the following questions:

Do you consider the use of severe beating, forcing a prisoner to inhale lime, and applying severe pressure to testicles as "meeting international standards of human rights?

Ambassador Enders: We wish to make it very clear we condemn torture under any circumstances. If true, the report you mention is cruel and repugnant and obviously defies all human rights standards.

Senator Leahy: How long has there been a torture room at the Police Headquarters in downtown San Salvador?

Ambassador Enders: I am not going to get into any specific allegations of torture in El Salvador. We condemn torture of any form and under any circumstances, and we have made this clear to the Government of El Salvador. We do this anytime we have reports of it.

Obviously, when we get a report we must do what we can to protect the source and sometimes the victim. It would not serve any purpose here to go into the details about location, victims, their organization or other details of any alleged incidents.

May I simply add with respect to your curiosity about torture rooms in the National Police Headquarters that a Congressional delegation escorted by President Duarte and the Chief of the National Police made an unannounced inspection of the building earlier this year and found no indication of a torture room. We have never been able to confirm or disprove the existence of such rooms. Assistant Secretary of State for Human Rights Affairs Elliott Abrams also visited the police headquarters recently, saw interrogation rooms, but nothing that could be described as a torture chamber.

Senator Leahy: Did you know of the existence of the torture room at the time of the January and July certifications?

Ambassador Enders: As I have said, we still cannot demonstrate that such rooms exist or do not exist.

Senator Leahy: Has the torture room now been dismantled?

Ambassador Enders: It has not yet been shown that they exist.

Senator Leahy: Who is in charge of the National Police Headquarters? How long has he held this post?

Ambassador Enders: Colonel Lopez Nuila, a laywer and a military officer in charge of the National Police. He has held this post for about two years. He is well known to the Embassy and visiting Congressmen.

Senator Leahy: Does he report to the Minister of Defense, General Guillermo Garcia?

Ambassador Enders: The National Police, as part of the Salvadoran security force, is under the command of Minister of Defense General Garcia.

Senator Leahy: Was General Garcia aware of the existence of a torture room at the time of the January certification?

Ambassador Enders: General Garcia at no time indicated to Embassy officers or US officials any knowledge of the existence of torture rooms at the National Police building or anywhere else in the country.

Senator Leahy: When did General Garcia order Col. Lopez Nuila to dismantle the torture room? What charges does General Garcia believe should be brought against those responsible?

Ambassador Enders: We do not know that they exist or that General Garcia ordered the rooms dismantled.

Senator Leahy: Did Mr. Abrams meet with General Garcia and discuss this matter during his trip?

Ambassador Enders: Mr. Abrams met with General Garcia during his recent trip to El Salvador, and discussed human rights and the need for members of the Salvadoran security forces to avoid abuses.

Senator Leahy: When was the first time that cable traffic began on this incident? When was the first time that U.S. officials first raised this matter with Salvadoran civilian officials? With Salvadoran military officials?

Ambassador Enders: As I said earlier, I am not going to go into details over any specific allegations.

Senator Leahy: Did Provisional President Alvaro Magana raise the issue of the torture room at the National Police Headquarters with Minister of Defense, Col. Garcia?

Ambassador Enders: We have made our concerns about torture known to President Magana and other senior officials. I think we can safely assume our concern have been reviewed by the highest levels of the Salvadoran Government.

Senator Leahy: According to Mr. Abrams, the National Police Commander, Col. Lopez Nuila, has a "strong commitment to human rights." How does this square with the fact that he had a torture room in his headquarters?

Ambassador Enders: When Secretary Abrams visited National Police Headquarters, he saw interrogation rooms, but nothing that could be described as a torture chamber. The National Police, under the command of Col. Lopez Nuila, has the best record of all the security forces for seeking to control abuses by its members. The US press has even reported this as a common assumption in El Salvador.

Senator Leahy: If Provisional President Alvaro Magana indicates that it is a "difficult and complicated matter to control abuses by security forces" in reference to a case involving the San Salvador Headquarters under the directorship of the National Police Commander, how can we expect that international human rights standards will be met by the Salvadoran armed forces in the countryside?

Ambassador Enders: As a first step toward assuring the human rights standards are observed, the Ministry of Defense has for some time attempted to upgrade communications and control capabilities of these small security force units to integrate their activities more fully under the Armed Forces General Staff in San Salvador. Training programs are putting more emphasis on respect for human rights.

Senator Leahy: When the OAS Inter-American Commission on Human Rights visited El Salvador in January 1978, they found a secret torture room in the National Guard headquarters. Can you tell us when that torture room was dismantled? Do you have any information relating to the existence of torture rooms in any other San Salvador military installations or offices, or in other parts of the country?

Ambassador Enders: The report to which you refer does confirm the existence of "interrogation cells" in the National Guard barracks in San Salvador. I should point out, however, that the report covers events in El Salvador which took place long before the October 1979 coup.

Senator Leahy: In mid-May, UPI reported that Colonel Rafael Flores-Lima, Chief of Staff of the Armed Forces, said that "there is nothing to dialogue about, much less negotiate, since the Armed forces institution has spoken very clearly on other occasions on this subject." What hope does this give the American people that the solution to El Salvador's problems will not involve continued military aid in support of an all-out war, rather than a process of reconciliation?

Mr. Enders: The government of El Salvador has rejected the idea of negotiations with the guerrillas concerning the sharing of power. They believe, as we do, that it would be unfair to hand power over to the guerrillas, power that they are unwilling to compete for at the ballot box. However, the government also realizes, as we do, that in the end, the conflict in El Salvador can only have a political, not a military solution. I believe that a process of reconciliation is beginning to take shape. The government has spoken about a dialogue. Even rightist leader D'Aubuisson has called for a dialogue with leftist political factions. Several political parties are publicly favoring an amnesty program for the guerrillas. President Magana has announced plans to establish a national commission to study these and other proposals for restoring peace. We hope that a process of reconciliation within the democratic process will gain momentum in the coming months, and believe that our security assistance is necessary precisely to allow this process to develop.

Senator Leahy: In an article in the Los Angeles Times, AIFLD Executive Director William Doherty wrote that "former landowners, encouraged by the conservative victory in the elections, had used their ties to the security forces to arrange the eviction of several thousand new peasant owners." What influence do these former landowners have, and do they have connections with officers of the armed forces? Have the interim President or the Constituent Assembly registered their concern over these evictions, and have disciplinary measures been taken against officers and soldiers involved?

Mr. Enders: As the reform process has unfolded in El Salvador over the last two years, many of the long-time bonds between the land-owning oligarchy and the military have been severed. Far from encouraging evictions, the Salvadoran military has repeatedly stated its support for the agrarian reform process and demonstrated that support with action.

High Command officers have often accompanied President Magana and other Cabinet officials to ceremonies in rural areas where provisional titles have been handed out to Decree 207 beneficiaries. Ironically, Deputy Secretary of Defense Castillo's helicopter was shot down by guerrillas only hours after he participated in one of those ceremonies in La Union.

Immediately following the elections, evictions of Phase III tenants became a serious problem . According to government records, 3,822 farmers have filed complaints over evictions. The military acted to reverse the evictions. In the last several weeks, 1,995 evicted Decree 207 beneficiaries have been reinstalled on their land by FINATA, working in cooperation with the armed forces. The problem is not yet resolved, but land reform is back on track.

## CONCLUSION OF HEARINGS

Senator **Kasten**. I would like to thank the witnesses, all of them, for their participation in today's hearing, and particularly you, Mr. Secretary, for your extraordinary tolerance and patience as you have sat here this afternoon.

Thank you very much.

[Whereupon, at 5:10 p.m., Thursday, July 15, the hearings were concluded, and the subcommittee was recessed, subject to the call of the Chair.]

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